

Airline relationship quality: An examination of Taiwanese passengers

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Abstract

Customer relationship management has become an increasingly important issue for airlines. This study develops a model to investigate the antecedents of airline relationship quality from the customer's perspective. Based on the findings from in-depth interviews with airline customers, we examine the relative impact of customer orientation, domain expertise, interpersonal relationships, service recovery, and information technology on customers' perceptions of the quality of their relationships with airlines. Structural equation modeling is used to analyze survey data collected from 252 domestic passengers in Taiwan. The results show that, in the order of importance, customer orientation, domain expertise, service recovery performance, and interpersonal relationships are the major factors contributing to airline relationship quality, whereas information technology has no significant effect.

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1. Introduction

In today's environment, firms are increasingly dependent on the relationships they have with their customers. Committed customer relationships often bring about greater payoffs for the firm, such as customer satisfaction, positive word of mouth, referrals, and loyalty (Kim & Cha, 2002). In particular for services businesses, managing customer relationships is important because of the inherent intangibility and heterogeneous characteristics associated with service delivery.

Signifying a paradigm shift, relationship marketing has attracted much attention from academics and practitioners (Morgan & Hunt, 1994). In contrast to transactional marketing, relationship marketing emphasizes more on the development and maintenance of long-lasting relationships

between the firm and its customers (Sheth & Parvatiyar, 1995). The characteristics of airline service offer many opportunities for practicing the relationship marketing approach. For example, a relatively small part of an airline's customer base accounts for the majority of its profits. It is in the best interest of the airline to build a long-term relationship with these customers to ensure repeat patronage (Shaw, 2004). For this purpose, most airlines establish and maintain frequent flyer databases to develop customer profiles so as to provide customized products and services and create superior value for customers. Moreover, the airline sector has been an early adopter of information technology such as computerized reservation systems, the Internet and customer relationship management (CRM) systems. With the help of these tools, airlines are able to enhance individual relationships with their customers (Buhalis, 2004; Doganis, 2001). For a relationship marketing strategy to succeed, it is important that customers and airlines must both benefit from the exchange relationship (Berry, 1983). From the customer's viewpoint, the positive benefits of relationship marketing can only be realized if customers are willing to engage in long-term relationships (Gwinner, Gremler, & Bitner, 1998). For airlines, the

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development of a strong customer relationship promises improved customer loyalty, which in turn leads to increased profits for the firm (Reichheld, 1993). One important question is what makes customers stay with a service provider or switch. The answer may, in part, depend on the quality of the relationship that customers keep with the service provider, i.e., customers decide whether to maintain a long-term relationship with the service provider based on the level of relationship quality achieved (Walter, Muller, Helfert, & Ritter, 2003). Given the importance of relationship quality in retaining customers, it is critical for airline management to understand, from the customer's perspective, what factors contribute to relationship quality. While a vast amount of relationship marketing literature exists, little empirical work has been done to explore this important issue in the air transport sector.

The objective of this study is to investigate the antecedents affecting relationship quality between airlines and their customers and analyze their relative impact on relationship quality. Comprehending the essentials of what determines relationship quality can provide useful management insights into developing effective strategies that allow airlines to retain customers.

2. Relationship-building strategies in the airline industry

Prior to airline deregulation in the 1980s, marketing was a largely neglected activity in airline operations. At that time, the airline industry around the globe was heavily regulated and protected by the government. Under this environment, airlines had no incentive to understand customer needs and expectations. The subsequent deregulation of the airline industry and the resulting competitive environment transformed the industry into a buyers' market and forced the airlines to adopt a more customer-focused marketing approach (Kaynak & Kucukemiroglu, 1993). In its pursuit of sustained customer relationships, the airline industry has been an early adopter of contemporary relationship marketing strategies (Bejou & Palmer, 1998; Kim, Han, & Lee, 2001).

The frequent flyer program (FFP) concept is one of the relationship marketing strategies embraced by airlines to build customer loyalty (Bejou & Palmer, 1998; Gilbert, 1996). First introduced by American Airlines, an FFP involves incentive packages designed to encourage loyal passengers' patronage and reward them according to the distance flown on the airline. With the proliferation of airline alliances and code-share flights, FFPs are often extended to allow benefits to be used across partner airlines. From a customer relationship viewpoint, the airline can use its frequent flyer database for proactive and differentiated marketing and provide services that meet the different needs and expectations of various customer segments (Doganis, 2001). As evident from the marketplace, FFPs continue to play a strategic role in an airline's overall loyalty schemes (Yang & Liu, 2003).

Nevertheless, it has to be acknowledged that enrollment in an FFP does not ensure that the subscriber is loyal to the airline since virtually all major carriers hold an FFP (Jarach, 2002). Other activities designed to maintain and enhance customer relationships are continuously implemented in airline operations. First of all, airlines strive to deliver superior service quality that enhances the value perceptions of airline service, which in turn leads to customer satisfaction. To address service failures, airlines develop service recovery policies to resolve customers' inquiries and complaints and recover their satisfaction and trust (Shaw, 2004). More recently, the pervasive use of the Internet in the airline business has created a digitalized market that improves the processes dealing with acquisition, management, and maintenance of customers (Jarach, 2002). The trend toward *disintermediation* helps airlines bypass travel agents or other intermediaries to get closer to their customers and use the Internet to facilitate two-way communication (Doganis, 2001; McIvor, O'Reilly, & Ponsonby, 2003; Shaw, 2004). Valuable customer knowledge and market information obtained through the Internet presents the potential for improving customer relationships for airlines. In addition to a website strategy, airlines are at their early stages of developing a wider range of CRM applications that allow airlines to provide integrated and customized services on a one-to-one basis (Doganis, 2001).

3. Relationship quality

Relationship quality is considered as an overall assessment of the strength of a relationship (Garbarino & Johnson, 1999) and captures the essence of relationship marketing (Jap, Manolis, & Weitz, 1999). Although discussion regarding the conceptualization of relationship quality remains unresolved, there is agreement that relationship quality is a "higher-order construct consisting of several distinct, although related dimensions" (Dorsch, Swanson, & Kelly, 1998) and different dimensions need to be combined to an overall relationship quality measure (Walter et al., 2003). Crosby, Evans, and Cowles (1990) develop a relationship quality model that examines the nature, antecedents, and consequences of relationship quality as perceived by customers from the life insurance industry. Relationship quality is viewed as a two-dimensional construct composed of trust in the salesperson and satisfaction with the salesperson. Kim and Cha (2002) investigate the antecedents affecting relationship quality between hotel employees and customers and the consequences influenced by the relationship quality. In this study, relationship quality is a construct consisting of two indicators, trust and satisfaction. Tseng (2005) explores the effects of relationship marketing tactics on enhancing relationship quality in the service industries. Satisfaction, trust, and commitment are included as constitutional elements of relationship quality.

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