



## Progress in Tourism Management

## Customer satisfaction using low cost carriers

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## ARTICLE INFO

## Article history:

Received 8 July 2009

Accepted 21 December 2009

## Keywords:

Low cost carriers

Perceived service quality

Customer satisfaction

Behavioral intentions

## ABSTRACT

Low cost carriers (LCCs) have a competitive advantage over full service carriers (FSCs) in several nations due to their lower fares and similar levels of service quality. Not all customers' needs are alike, and the market characteristics found in the LCCs industry may influence customers' attitudes. Thus, this study examines the relative importance of perceived service quality and the relationship between perceived service quality, customer satisfaction and behavioral intention using multidimensional methods. The results from this study indicate that the significant dimensions of customer satisfaction are tangibles and responsiveness. In addition, the study confirms the significant consequences of customer satisfaction including word-of-mouth communication, purchase intentions, and complaining behavior. Based on these results, carriers should develop tangibles and responsiveness for the enhancement of customer satisfaction and behavioral intentions.

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## 1. Introduction

The Korean domestic airline market is extremely competitive due to the emergence of low cost carriers (LCCs). The rate of passenger seating provided by LCCs (Hansung Airlines, Jeju Air, Yeongnam Air, Jin Air, and Air Busan) continues to increase despite the global economic crisis (2005, 0.1%; 2006, 2.2%; 2007, 6.5%; 2008, 9.8%; Korea Airports Corporation, 2009). Jou, Lam, Hensher, Chen, and Kuo (2008) reported that passengers consider service quality and price when choosing airlines. LCCs continue to develop due to passengers' needs for low cost air travel. However, according to Holtbrugge, Wilson, and Berg (2006), many airlines aim to provide a high level of service quality to enhance customer satisfaction and to increase the efficiency of airline brands to replace the generic reputation of LCCs as low fare's benefit. Moreover, Balcombe, Fraser, and Harris (2009) show that not only price but also service quality triggers the passengers' behaviors as well. In fact, airlines are making an effort to maximize their profit by adjusting price to be comparable with competitors' fares. To accomplish this, these airlines may lower their prices continuously until their goal is reached (Jou et al., 2008). Assaf (2009) stated that more airlines could lower their fares to attract a greater number of passengers. Therefore, price may not be a prominent factor in choosing an airline, even among LCCs.

Researchers indicate the importance of the relative effect of quality instead of the overall judgment of service quality. For instance, the importance of check-in and check-out speeds varied depending on the reason for travel, such as business or leisure (Pizam & Milman, 1993). Anderson, Fornell, and Rust (1997) state that the importance of each dimension of service quality which has an influence on customer satisfaction varies with the situation. Thus, the relative impact of service quality on customer satisfaction in the airline industry is unique among industries. Furrer, Liu, and Sudharshan (2000) also support the idea that the relative importance of the service quality dimensions can provide beneficial insights into how companies should manage resources for different customers. These studies indicate the importance of the relative effect of each service quality dimension instead of the overall judgment of service quality. Thus, we can assume that perceived service quality varies with an LCC passenger's needs.

Customer satisfaction is a compelling issue because in the service industry customer retention is more important than is attracting new customers (Kim, Ng, & Kim, 2009; Lee, Lee, & Youou, 2000; Namkung & Jang, 2007; Park, Robertson, & Wu, 2004). Reichheld and Sasser (1990) show that retaining customers has a stronger impact on company profit than does attracting new customers. They determined that to maximize profits companies should strive for zero defection through customer satisfaction. For instance, a 5% improvement in the customer retention rate resulted in a 25–85% increase in the company's profit. Gupta, Lehmann, and Stuart (2004) state that a 1% increase in the customer retention rate had a 5% influence on the company's profit. Hence, understanding passenger satisfaction is critical for passenger retention in the South Korean LCC market.

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The behavioral intentions affected by customer satisfaction are the most important behavioral determinant according to the Theory of Reasoned Action (TRA), the Theory of Planned Behavior (TPB), and Behavioral Reasoning Theory (BRT) (Ajzen, 1985; Baker & Crompton, 2000; Fishbein & Ajzen, 1975; Westaby, 2005). However, customers' behavioral intentions are not yet fully understood. Many studies in the airline industry examine customers' behavioral intentions as a one-dimensional construct. Zeithaml, Berry, and Parasuraman (1996) found the full range of potential behaviors affected by service quality and hypothesized two dimensions of behavioral intentions: favorable behavioral dimensions (word-of-mouth communication, purchase intentions, and price sensitivity) and unfavorable behavioral dimensions (complaining behavior). Reportedly, LCCs emerged in the South Korean domestic market by providing low fares and levels of service quality similar to those of the full service carriers (FSCs). However, to the best of the authors' knowledge, there is little research regarding perceived service quality and proficiency of the new South Korean LCC entrants. Previous studies examined the overall associations among perceived service quality, satisfaction, and behavioral intentions. Thus, the aim of the present study was to determine passengers' assessments of the relative importance of perceived service quality and to explore the relationship between customer satisfaction and specific types of behavioral intentions in the South Korean LCC market.

## 2. Literature

### 2.1. Service quality of LCCs in South Korea

LCCs emerged in South Korea following the rapid growth of Korean tourism in 2005. A considerable amount of competition between LCCs and FSCs (The Korea Transport Institute, 2007) now exists in South Korea. The Korean FSCs and LCCs do not differ much in terms of network operations. Normally, LCCs provide basic air transport service with no frills and lower fares, and the average LCC fare is about 40–60% lower than a typical FSC fare (Lawron, 2002; Oliveira, 2008). However, South Korean LCCs provide a level of service quality comparable to that of FSCs due to conditions specific to South Korea, while offering lower fares as a strategy tool. For instance, South Korean LCCs arrive and depart from primary airports instead of secondary or regional airports, provide complementary in-flight services instead of purchased amenities, and offer seating assignments instead of non-reserved seating. LCCs are gaining substantial economies through fleet commonality, low distribution cost using the internet, point-to-point service, and non-refundable tickets. Hence, LCCs in South Korea are attempting to be prominent airlines by providing service quality equal to that of FSCs, despite the lower fares (The Korea Transport Institute, 2007).

Deregulation in 1978 caused the boundary's breakup of the airline service quality. LCCs are a by-product of this deregulation. South Korean LCCs also emerged after deregulation and liberalization in South Korea, using the strategies of low fares and service quality. In addition, regression of domestic air service by South Korean FSCs, directly caused by the launch of high-speed bullet train service in 2004, was another factor accelerating the emergence of LCCs. Finally, active participation and competitive investment by the South Korean regional government was a major driving force for the establishment of numerous LCCs. Without question, the low fares of LCCs may be one of the major determinants for a passenger's decision (Jou et al., 2008). Hidalgo, Manzur, Olavarrieta, and Farias (2008) offered a lower price to satisfy customers and to encourage them to buy from the same airline again. However, the quality of an LCC is a more vital factor than is

a low fare, since quality is the key attractant of passengers. For instance, the attraction of LCCs may disappear if FSCs fares were lowered. According to Chang and Yeh (2002), an airline's competitive advantage is the perceived service quality of the passenger, although a low fare is the primary competitive weapon. Although the U.S. carrier, Southwest Airlines is an LCC, passengers perceive that Southwest Airlines' service quality is higher than that of other U.S. FSCs (Gursoy et al. 2005). Zeithaml (1988) stated that perceived service quality is a more beneficial attribute than is price, which is often ignored. Hence, improving service quality is considered an essential strategy for a company's success in a competitive market. Many airlines attempt to enhance organizational effectiveness and productivity by managing service quality. Therefore, perceived service quality is an important factor affecting airlines in a highly competitive market (Gilbert & Wong, 2003).

On the other hand, service quality as defined in SERVQUAL model determines the gap between customers' expectations and perceptions. Five dimensions of perceived service quality in airline industry are characterized as follows:

- (1) Tangibles are defined as the physical facilities of the aircraft: seating comfort, seat space and legroom, in-flight entertainment service (books, newspapers, movies, games, and magazines), appearance of the employees, and meal service (freshness, quantity, and appearance).
- (2) Reliability can be described as the ability to perform service dependably and accurately, such as punctuality, efficiency of the check-in process, and convenience and accuracy of reservations and ticketing.
- (3) Responsiveness is related to the willingness to help passengers solve service problems (flight cancellation and baggage loss), response to emergency situations, as well as prompt and accurate baggage delivery.
- (4) Assurance is associated with the ability to inspire trust and confidence in (knowledge to answer questions and ensure safe performance), as well as show courtesy toward passengers.
- (5) Empathy is the service dimension that focuses on individualized attention or care, such as providing the seat a passenger prefers or meals through a pre-order system or having a Frequent Flyer Program (Bloemer, Ruyter, & Wetzels, 1999; Cuning, Young, & Lee, 2004; Park et al., 2004).

### 2.2. Perceived service quality and customer satisfaction

Three models of the relationship between perceived service quality and customer satisfaction focus on the mediator of customer satisfaction: the perceived service quality-to-customer satisfaction model, the customer satisfaction-to-perceived service quality model, and the independent-effects model (Dabholkar, Shepherd, & Dayle, 2000). The perceived service quality-to-customer satisfaction model is widely accepted. Baker and Crompton (2000) recognized that specific emotions related to service experience might emerge and intervene as a mediator between the two constructs. Moreover, the perception of service quality is a casual antecedent to satisfaction according to numerous studies, and customer satisfaction develops behavioral intentions (Otto & Ritchie, 1995). For instance, Park et al. (2004) showed that perceived quality of the airline industry has a positive effect on passenger satisfaction with the airline image and service value, although the relative importance of service quality was not investigated. In fact, perceived service quality and customer satisfaction are contiguous concepts, although perceived service quality is a more specific concept than is customer satisfaction. Namely, perceived service quality refers to the customer's subjective

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