

PASSENGERS PERCEPTIONS TOWARDS SERVICE QUALITY OF FSC OF AN LCC GROUP

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Abstract. The establishment of Batik Air as a Full-Service-Carrier (FSC) of Lion Air Group, a Low-Cost-Carrier group, marks a new development in the airline industry. LCC groups had started their move to serve a larger customer segment to increase their share in key markets. Previously the multi-brand strategy was only utilized by FSC groups as a response to the entry of LCC in the market. This study specifically tries to investigate the perception of passengers towards FSC within an LCC group. An online survey was conducted among the passengers of Batik Air in the last one year. 247 respondents were obtained resulting in a 67.1% response rate. SEM analysis was used to analyze the data. This study provides light in revealing how passengers perceive the service quality of FSC under an LCC group. The current results also clarify whether the service performances of such FSC align with the perceived services by its customer. This study contributes to the existing customer perception and strategic literature in the way that is among the first studies to investigate the perception of passenger a newly established FSC from an LCC group. The study includes implications for the low-cost airline group that plans to establish a full-service unit to maintain the level of service quality thus can succeed in attracting passengers within the intended market.

Keywords: full-service-carrier, low-cost-carrier, airline, customer perception, service quality

Abstrak. Pendirian Batik Air sebagai maskapai dengan pelayanan penuh dari Lion Air Group, sebuah kelompok maskapai berbiaya rendah, menandai perkembangan baru di industri penerbangan. Kelompok maskapai berbiaya rendah mulai melebarkan layanan mereka terhadap segmen pasar yang lebih luas. Sebelumnya, hanya kelompok maskapai pelayanan penuh yang menggunakan strategi berbagai merk sebagai respon atas keberadaan maskapai berbiaya rendah. Penelitian ini secara spesifik menganalisis persepsi penumpang atas maskapai pelayanan penuh dari kelompok maskapai berbiaya rendah. Sebuah survei dilakukan terhadap penumpang Batik Air dalam satu tahun terakhir. Diperoleh 247 responden (67,1% tingkat respon) yang kemudian dianalisis menggunakan SEM. Penelitian ini menemukan bagaimana persepsi penumpang terhadap kualitas pelayanan maskapai pelayanan penuh yang berasal dari kelompok maskapai berbiaya rendah. Penelitian ini berkontribusi terhadap literatur penelitian karena termasuk penelitian awal yang mencoba melihat persepsi penumpang atas jenis maskapai ini. Hasil penelitian ini juga menyajikan implikasi bagi kelompok maskapai berbiaya rendah yang hendak mendirikan maskapai pelayanan penuh sehingga dapat sukses menarik penumpang di segmen tersebut.

Kata kunci: maskapai pelayanan penuh, maskapai berbiaya rendah, maskapai penerbangan, persepsi penumpang, kualitas pelayanan

INTRODUCTION

The changing landscapes such as demographic, technological, social and economic, and political environment have compelled players within the airline industry to transform the way they do business (Kaynak *et al.*, 1994) The emergence of low-cost-carriers (LCC) in the United States after 1970s' airline deregulation has changed the competition within the industry (O'Connell and Williams, 2005). Nowadays, LCC maintain significance existence in several major areas as shown by its share to total scheduled passengers of 26% in North America region, about 30% in Europe and 31% in the Asia Pacific (ICAO, 2017). In addition to those areas, regions such as Africa and the Middle East are experiencing the rapid development of LCC. LCC introduces an operational concept that preceding simplicity, efficiency, and productivity improvement (O'Connell and Williams, 2005) to provide an attractive offering for its customers. Such concept also attracts the incumbent player in the industry, i.e., legacy or full-service airlines (FSC), to enter the new segment by establishing (or acquiring) LCC unit to preserve their position in the market. It has been also driven by high demand growth in aviation industry recently (Pandhega *et al.*, 2016). Several airline groups that well-known to establish a subsidiary are including IAG creating Vueling, AirFrance-KLM Group creating Transavia and Joon, Singapore Airlines establishing Scoot, and so on.

By this multi-brand strategy, an airline group tries to optimize its offering and to diversify its market thus can capture as many as a customer base. Some studies have investigated the effectiveness of that strategy to improve company's customer-based indicators (see: Pandhega *et al.*, 2016; Akamavie *et al.*, 2015; Leong *et al.*, 2015). Fourie and Lubbe 2006). They found that the multi-brand strategy may help an airline group to expand its market as each airline member use a different strategy. Although many studies review the LCC from an FSC group, so far, there is no study discussing the FSC from an LCC group. The unavailability of such research is caused by the latter type of airline had not existed until 2013. In 2013, one of the major LCC groups in Asia, Lion Air Group, established a subsidiary in Indonesia, i.e., Batik Air, to compete in the FSC market that was solely served by the country's flag carrier, Garuda Indonesia.

The establishment of the new airline by the group marks a new development in the airline industry as an LCC group had started their move to serve a larger customer segment to increase their share in key markets. Furthermore, the establishment of Batik Air provides an interesting object for the possibility to answer research question regarding the perception of passengers to an FSC from an LCC group. Meanwhile, several studies that have been conducted after 2013 (Ali *et al.*, 2014; Jahmani, 2017) still focused on examining passenger's perception of FSC as a standalone company; not a member of LCC group. It is caused that the case of FSC as a member of the LCC group is limited. Therefore, study to investigate passenger's perception towards FSC as a part of LCC group is intriguing to conduct. This study wants to capture passenger's perception of FSC from an LCC group

towards its service quality. The study is also conducted to inspect whether the airline's service quality performance satisfies the passengers' expectation.

This study begins with the introduction then continued by discussing several important kinds of literature related to the current topic. In the next section, it presents the methodology used including the description of sampling. The main parts consist of descriptive analysis and the main results. The study is summarized by the conclusion and further recommendation section.

LITERATURE REVIEW

Service Quality and Customer Satisfaction. Service quality has become a crucial issue in many industries, including the airline industry, to boost company performance and to determine competitiveness (Hapsari *et al.*, 2016; Lewis, 1989). A company which offers excellent service quality to the customers could gain a competitive advantage that differentiates it from its competitors (Buttle, 1996). Service quality is one of the essential antecedents that influence customers to decide what services they want to purchase (Anderson and Zeithaml, 1984). Thus, a company has to identify what customers want in formulating high level of services (Zeithaml *et al.*, 1990). Service quality is defined as the overall customer's impression of the relative efficiency of the organization and its services (Bitner and Hubbert, 1994). Service quality is affected by two factors, namely service expectation and service perception. If customers receive service as their expectation, they can satisfy with service quality, while they receive services exceed their expectation, customers feel receiving excellent service quality and vice versa (Parasuraman *et al.*, 1985). In the airline industry, service quality is related to how an airline provides excellent service standards to the passengers while transporting them to the required destinations (Rhoades and Waguespack, 2008). The interaction during the flight between passengers and cabin crews is likely to affect passenger's perception towards airlines (Gursoy *et al.*, 2005).

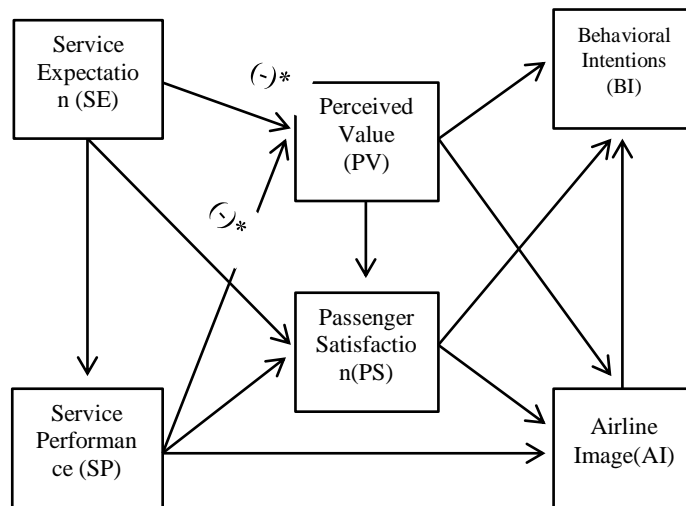
The ultimate objective of maintaining a certain level of service quality is to preserve customer satisfaction which leads to customers' retention rates (Jin *et al.*, 2012; Cronin *et al.*, 2000; Holbrook, 1994) and customers' fulfillment level (Oliver, 1997). Customers make a judgment about the level of pleasure fulfilled by products or services offered. Interactions with employees strongly affect customer satisfaction (Boshoff and Tait, 1996). Hence, it is very crucial for a company to modify and examine employee's behavior towards its customers so that employee's acts can satisfy customers (Baker, 2013). Customers who satisfied are more likely to repeat the use of products or services of a company compared to customers who dissatisfied (Strauss *et al.*, 2001; Zairi, 2000; Heskett and Schlesinger, 1994). Customer satisfaction has been considered as a key issue to be sustained in the service operation due to its worthwhile benefits among other things profitability and long-term success (Ranaweera and Prabhu, 2003). Customer satisfaction also plays an important role in retaining existing customers (Cronin and Taylor, 1992; Fornell, 1992). Several studies have found that acquiring new customers is more difficult than maintaining the existing one (Blodgett *et al.*, 1995; Gummesson and Gronroos, 1988). Impressively, customer satisfaction leads to positive outcomes, such as word of mouth which provides a company

with an opportunity to promote their brands indirectly without any significant monetary costs (Fornell, 1992; Halstead and Page, 1992).

Perceived Value, Airline Image, and Behavioral Intention. Perceived value is the overall utility received from products and services (Zeithaml, 1988) and a relevant construct that links service with quality and customer satisfaction. It involves two key views in consumer behavior, i.e., utilitarian (value is linked to the prices) and psychological perception (emotional aspect in consumer's decision making). In the decision-making process to choose LCC or FSC, perceived value is involved. For LCC customers, utilitarian perspective is preeminent while service quality is valued for FSC customers (Periera *et al.*, 2011).

On the other hand, the corporate image can be defined as customer perception to the company based on customer's previous memory association (Jin *et al.*, 2012). The study on the effect of service quality towards corporate image has also been mixed. Anderson and Zeithaml, (1984) argues that customer's perception towards service offered by a company can be affected by corporate image, on the other hand, Bastaman and Royyansyah (2017) found the insignificant effect. The image also enables customers to evaluate overall service quality (Gummesson and Gronroos, 1988). However, there are limited studies on how corporate image role in the airline industry. Service quality and customer satisfaction are found as a vital predictor that influence a customer's behavioral intentions (Rajaguru, 2016; Lin *et al.*, 2009). There is a positive association between service quality and various forms of behavioral intentions (Chen and Hu, 2013; Cronin *et al.*, 2000) such as repurchase intention, intention to recommend, and positive word of mouth. In the airline industry, some literature indicates that customer satisfaction leads to several behavioral purposes, such as intention to repurchase the same airline and willingness to recommend (Chen, 2008; Bigne *et al.*, 2001; Boulding *et al.*, 1993; Cronin and Taylor, 1992).

Several previous studies related to LCC and FSC have found a different conclusion. In the LCC which appeared recently, price and image have been the keys that attract customers (Osaki and Kubota, 2016). However, Osaki and Kubota (2016) also mentioned that they are poor in the scheduling. Moreover, there has not been a dedicated model to analyze FSC services from past studies. The conceptual model (Figure 1) is adapted from previous work (Park *et al.*, 2004). It involves service expectation, service performance, customer satisfaction, perceived value, airline image, and behavioral intention.



*The hypothesized association is negative; the other causal paths are hypothesized to be positive

Figure 1. Conceptual Framework

METHOD

The quantitative approach is used in testing the proposed hypotheses. The study utilized a structured self-administered questionnaire based on previous literature review and in-depth discussion with several frequent passengers to operationalize the constructs. The design of the questionnaire is developed on the multiple-item measurement scales on Six Point Likert's Scale with the following range: 1 for strongly disagree to 6 for strongly agree. Six Point Likert's scale is used to avoid a neutral response. Twenty-three items are employed to measure the airline service quality (service expectation and service performance). The items are primarily adopted on the SERVQUAL scale (Parasuraman *et al.*, 1988) with some modifications. Perceived value, passenger satisfaction, airline image, and behavioral intentions are measured by three items each (Park *et al.*, 2004).

The questionnaires were distributed to the passengers of Batik Air who had ever used the airline services during the past 12 months by using convenience sampling. A period of 12 months was chosen which enables respondents to have recall ability in this limited time frame (Singh, 1990). A pilot survey was conducted to avoid problems with the instructions, questionnaire design, and scale validation. Wording and grammatical modification were made after receiving some insights from respondents and suggestion from colleagues in the university. At the main test, the questionnaires were distributed online via e-mail and social media to the targeted respondents for over couple weeks on March 2017. 247 questionnaires were completed and usable for further analysis with a valid response rate of 67.1%. 200 – 400 respondents to adequately analyze using SEM (Jackson, 2001).

RESULTS AND DISCUSSION

Table 1 indicates the characteristics of respondents. There were 128 (51.8%) males and 119 (48.2%) females. The respondent's age was mainly dominated between 25 – 29 years old (61%) and 20 – 24 years old (23.5%) with the education level is mostly at the undergraduate degree (74.1%). Although the respondents were skewed towards younger and educated pool, this figure represents the relative target of the airlines. The people within the age range relatively has a growing additional disposable income thus aspiring to get a better service experience yet on a limited budget. As a result, the age group tends to switch their choice from an LCC to an FSC. This figure justifies the positioning of Batik Air which mainly focuses on the middle-income customers who aspire a better service but with affordable price. Despite being a major limitation of this study, the young peoples are the future customers that are likely to become the potential customers with more frequent use.

Table 1. Respondents' Profiles

Attributes	Sample Number	Frequency (%)	Attributes	Sample Number	Frequency (%)
Gender			Monthly Income		
Male	128	51.8	<Rp3,000,000	60	24.3
Female	119	49.2	Rp3,000,000- Rp7,000,000	94	38.1
Age			Rp7,000,001- Rp10,000,000	57	23.1
< 20	16	6.5	>Rp10,000,000	36	14.5
20-24	58	23.5	Travel Purpose		
25-29	151	61.1	Business	67	27.1
>29	22	8.9	Vacation	97	39.3
Education Level			Family Visit	68	27.5
Primary Education	47	19.1	Others	15	6.1
Undergraduate	183	74.0	Flight Frequency over last one year		
Graduate	17	6.9	1-3 Times	78	31.6
Occupation			4-6 Times	74	29.9
Student	68	27.5	7-9 Times	44	17.8
Private Employee	112	45.3	>10 Times	51	20.7
SOE Employee	24	9.7	Purchasing Channel		
Civil Servant	10	4.0	OTA	215	87.0
Housewife	3	1.2	Travel Agent	20	8.1
Unemployed	5	2.0	Airline Website	12	4.9
Others	25	10.1			

In term of occupation, respondents mainly work as an employee of a private company (45.3%). From the survey, respondents with an occupation in a State-Owned Enterprise (SOE) or a civil servant are not dominant since SOE and government institutions in Indonesia have already had an agreement to use Garuda Indonesia (an SOE owned by Indonesia government) as the travel mode for business purposes. The figure is supported by the respondents' reason for using airplane were mostly for personal purposes (vacation (39%) and family visit (27%)). The monthly income of respondents is distributed in all

income range which represents the user of the air travel service in Indonesia. Most of the respondents used airplane below seven times for over the past one years (more than 60%) also represents the average national level air travel traffic per resident. In buying behavior, most respondents decided to buy flight ticket by themselves (83%) through Online Travel Agent.

Table 2 provides a summary of the measurement model results. The Cronbach Alpha of all constructs is satisfactory (more than 0.8). The construct reliability (CR) also showed linear results with the Cronbach Alpha where the CR value shows more than 0.7 (Hair *et al.*, 1998). These results imply that all constructs have a reasonable level of reliability.

Table 2. Measurement Model Results of Validity and Reliability

Constructs	Number of Items	Removed Items	CR	Cronbach Alpha	AVE	SLF Range
SE	23	4	0.93	0.92	0.41	0.35 -0.89
SP	23	0	0.93	0.93	0.39	0.34 -0.71
PV	3	0	0.79	0.82	0.56	0.46- 0.71
PS	3	0	0.88	0.90	0.71	0.71 -0.74
AI	3	0	0.83	0.84	0.56	0.69 -0.81
BI	3	0	0.82	0.91	0.56	0.82

Four items in Service Expectation were deleted as the SLF are below 0.3 (Igbaria *et al.*, 1997). The AVE for perceived value, for passenger satisfaction, for airline image, and for behavioral intentions were satisfactory while the AVE of service expectation and service performance are below 0.5. However, a below than 0.5 AVE is acceptable when the CR is more than 0.7 (Hatcher, 1994). Table 3 provides the results of Measurement and Structural model test. The various indexes (χ^2/df , RMSEA, SRMR, CFI, GFI, NFI, PNFI) of both measurement and structural model indicate the model provides an adequate fit to the data.

Table 3. Results of The Measurement and Structural Model Tests

Model	χ^2/df	RMSEA	SRMR	CFI	GFI	NFI	PNFI
Measurement Model	2.190	0.071	0.075	0.81	0.68	0.71	0.67
Structural Model	2.200	0.071	0.075	0.82	0.67	0.71	0.67

The results of path analysis were displayed in Table 4. The positive and significant coefficient path between service expectation and service performance indicate that customer evaluation to the actual service offered by FSC in an LCC group is influenced by prior service expectation to the carrier (Hypothesis 1 supported). Further, service performance has a positive effect on the customer's perceived value (Hypothesis 5 supported).

Table 4. Results of Hypotheses Testing

Hypothesized Paths	Estimate	T-Value	Remark
H1: SE→SP	0.54	6.97	Supported
H2: SE→PS*	-0.04	-0.74	Not Supported
H3: SE→PV*	-0.05	-0.94	Not Supported
H4: SP→PS	-0.24	1.34	Not Supported
H5: SP→PV	0.93	8.89	Supported
H6: SP→AI	-0.21	0.98	Not Supported
H7: PV→PS	1.2	5.25	Supported
H8: PV→AI	-0.21	-0.27	Not Supported
H9: PV→BI	-0.58	-1.69	Not Supported
H10: PS→AI	-0.21	1.61	Not Supported
H11: PS→BI	1.38	3.22	Supported
H12: AI→BI	0.1	0.49	Not Supported

*Negative Hypotheses

The result also shows a positive perceived value will lead to higher customer satisfaction (Hypothesis 7 supported). Finally, the study also finds that customer satisfaction has a positive effect on the behavioral intentions Hypothesis 11 supported). Customers who satisfy with the airline have a possibility to fly again with the airline and provide a recommendation to other people (Park *et al.*, 2004).

Discussion. The airline as a service industry should consider service quality as a competitive advantage to win the market (Olorunniwo *et al.*, 2006; Ekiz *et al.*, 2006; Ali *et al.*, 2014). Parasuraman *et al.* (1985) noted that service quality should be evaluated by service expectation and service performance. While for the measurement of service quality, SERVQUAL dimensions can be utilized as the mean for assessing the quality including in the airline industry (Nedunchezian and Thirunavukkarasu, 2018; Wu and Cheng, 2013; Parasuraman *et al.*, 1988). This study shows that the passenger's perception towards service performance of FSC in an LCC Group is affected by service expectation. This result strengthens the previous study by Park *et al.* (2004) which found that the service expectation positively associated with service perception towards the airline service. As suggested by Hussain (2015), it is crucial for an airline to maintain customer expectation with service quality level that they can provide as it can lead to customer satisfaction and eventually to customer loyalty.

This study also shows a significant association between the service performance and perceived value. It indicates that the excellent service quality leads to a more perceived in receiving valuable things from the carrier. It helps the passengers to enhance their perception gained from the airline. The perceived quality is measured by comparing benefits they receive with the cost they spend on the patronage service offered (Gill *et al.*, 2007). Hapsari *et al.* (2016) found that service quality and perceived value together with customer satisfaction can affect indirectly to brand loyalty with a favorable outcome.

On the other hand, perceived value is the key antecedent of satisfaction that customer receive (McDougall *et al.*, 2000). Customer evaluates their satisfaction based on the value

received. This finding implies that the role of the cognitive process leads to an emotional response (Bagozzi, 1992). In this case, perceived value is deemed as a cognitive process of customers in which they compare the cost and the benefits they receive. Meanwhile, customer satisfaction is an outcome of emotional response. This finding also shows us that service quality indirectly affects customer satisfaction. A study conducted by Jahmani (2017) also supports the present study that found the customer satisfaction is caused by service quality from SERVQUAL dimensions. Moreover, Yang *et al.* (2017) also found perceived value and service quality affect positively to customer satisfaction in LCC Case in Vietnam.

Service quality plays as an important factor in affecting customer satisfaction of FSC in an LCC group. Several studies in the standalone context of airline, i.e. FSC (Jahmani, 2017; Hussain, 2015; Ali *et al.*, 2014) or LCC (Pandhega *et al.*, 2016; Wu and Cheng, 2013), show that service quality was a key factor that companies must fulfill. It implies that no matter the type of the airline (FSC, LCC, FSC in an LCC Group), service quality is the value proposition for an airline company. Lastly, this current result exhibits that customer of FSC of an LCC group ignores the group's image as an outcome of their satisfaction. It also does not affect their behavioral intentions. They do favorable actions as they satisfy with the service quality of the airline; it is not caused by the airline (group) image. This finding confirms the study of Bastaman and Royyansyah (2017) which stated that there is no effect of service quality towards the image of a company.

CONCLUSION

This paper has contributed to extend the literature on how customer perception of service quality and satisfaction of an FSC in an LCC group which is recently established in the industry. Although this case is limited and not appeared as a common case in the aviation industry nowadays, this paper shows that service quality still plays an important role to determine customer satisfaction through perceived value. The customer satisfaction leads the customer to make decisions that are favorable for the airline, such as repeat using the same airline and recommend the airline to other people. It also requires the airline to learn what the customer expects from the service offered. Meeting customer expectation is very important to create sustainable benefit from the customer.

The study has a limitation in term of respondents that is skewed to the younger and more educated pole. Although it still provides an answer the way future frequent traveler of the airline, the future research may incorporate more respondent pool. Also, another region with a new established FSC from an LCC group should provide empirical evidence to enrich the current result. The not supported result of the airline image to the behavior intentional may provide a hint for the next research question. It is any possibility that the group's image may moderate the behavioral attitude of the passengers.

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