The Role of Customer Engagement in Enhancing Passenger Loyalty in IndonesianAirline Industry: Relationship Marketing Approach

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Abstract

Scholars and practitioners agree that organisations cannot rely on transactional marketing since customers demand more personalized goods and services. Consequently, organisations need to build a relationships based on a mutual exchange with their customers to satisfy their needs and wants and customer relationship emerged to enhance long-term customer profitability. Customer perceived value have been widely accepted as important antecedents improving customer loyalty. However, only a few published studies have the integrated customer engagement construct with the other important marketing constructs to examine the interrelationship among them. This research aims to examine the interrelationships among perceived value, customer engagement and customer loyalty. Focus group discussions, and a survey of 250 Indonesian airline passengers in East Java Province, Indonesia, were conducted to satisfy the research objectives. In order to carry out a comprehensive investigation of the relationship between variables, a quantitative approach is used in this study. The methods used to analyse the data are Confirmatory Factor Analysis (CFA) to test the model fit and Structural Equation Modelling (SEM) to test the hypothesis. Sobel's test is also used to test the mediating role of customer engagement. The findings of this study indicate while customer perceived value consistently influences loyalty, customer engagement is also proven to be an antecedent of loyalty. Furthermore, customer engagement is also proven to play a mediating role which strengthens the relationship between perceived value and loyalty. The results of the empirical analysis is supported by previous studies that suggest customer engagement is a new construct that has an important role to play in enhancing passenger loyalty.

Introduction

South Asian Airline industry is facing a challenging moment as the Association of South East Asian Nation (ASEAN) open skies policy will be applied by 2015. This policy will allow the ASEAN member countries (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) to operate their air transport

services across the borders with minimum restriction. Indonesia as the most populated country in South East Asia is predicted to be the biggest market of the airline industry and projected to increase its passenger growth by 10% every year. For that reason, Indonesian airline industry needs to find a way to win the competition in the ASEAN airline industry. This study will investigate the determinants of customer loyalty in the domain of Indonesia airlines industry and fill a gap of a lack of study investigate customer engagement empirically together with other marketing constructs.

Oliver (2010) claims that a company can enhance its profits by having loyal customers, so it does not need to spend excess money and resources to attract new customers. Customer relationship marketing is believed as a way to retain loyal customer by customer loyalty. The main value of customer relationship marketing is sustaining the relation between the service organization and its customers. The ultimate goal of customer relationship marketing is strengthening customer long-term profitability through customer loyalty, so that the service organization can triumph the competition in the industry (Ladhari, 2008).

Customer value is believed as an important construct in customer relationship marketing as providing a superior value to customer is an essential factor to gain a competitive advantages. Thus, abundant of research have been done in investigating the relationship between customer perceived value and customer loyalty. However, in the airline industry, the study of the effect of perceived value on passenger loyalty is still need to be done following the growing of airline industry. Therefore, academics and management have turned their attention to the formation of customer loyalty and exploring its antecedents (An & Noh, 2009; Pakdil & Aydin, 2007; Park, 2010; Saha, 2009).

Several current studies of the airline industry have investigated and found that perceived value as a part of relationship marketing concept is significantly affect customer loyalty (Chen, 2008; Park, Robertson, & Wu, 2006; Yang, Hsieh, Li, & Yang, 2011; Zins, 2001).

Apart from the well-recognized customer loyalty's antecedents, the construct of customer engagement is attracting scholars to assess its effect on customer loyalty. However, to date, only few studies have explained the link between customer engagement and customer loyalty (Bowden, 2009a; Brodie, Hollebeek, Juriæ, & Iliæ, 2011; Van Doorn et al., 2010). Academics (Brodie, Whittome, & Brush, 2009; Prahalad & Ramaswamy, 2004) suggest that customer engagement should be considered as a vital aspect in boosting loyalty, since more knowledgeable customers together with the rapid growth of information technology make the interaction between customers and businesses essential in creating customer value. In this study, to gain a broader understanding of the factors affecting airline passengers' loyalty, the construct of customer engagement will be integrated with other determinants of customer loyalty. Furthermore, the mediating role of customer engagement will also be explored in this study in order to deepen the understanding of the effect of customer engagement on customer loyalty.

Conceptual Model and Hypothesis

This study proposed a conceptual model which consists of three constructs: perceived value, customer engagement and customer loyalty. The review on the literature and the model formation will be discussed in this section.

Given that marketing is a social exchange between parties, the notion of customer perceived value is important in marketing activities (Gounaris, Tzempelikos, &

Chatzipanagiotou, 2007). Furthermore, to have a high customer perceived value is an essential strategy for companies to enhance their competitive advantage (Bhattacharya & Singh, 2008; Ravald & Grönroos, 1996). Customer value is also considered as an important component of relationship marketing and also proven to enhance customer loyalty (Edward & Sahadev, 2011; Petrick & Backman, 2002; Ravald & Grönroos, 1996). In addition, Gale (1994) contends that companies succeed when they provide customers with superior value since customers will naturally choose a product or service which will provide higher value than possible alternatives. For that reason, it is believed that businesses should be concerned about creating high customer perceived value.

Customer engagement is emerging as a new construct which gains a considerably attention from academics and also regarded as a component of relationship marketing practice (Vivek, Beatty, & Morgan, 2012). Customer engagement is defined as customers' behavioral expression beyond purchase as a result of motivational drivers (Van Doorn et al., 2010). There are four dimensions of customer engagement, including the level of a consumer's sense of belonging to the brand (identification), the level of attention the brand (attention), the level of passion and interest with the brand (enthusiasm), a pleasurable condition for deeply absorbed when play the role as a brand's customer (absorption) and the levels of participation that a customer has with the brand (interaction) (Kevin Kam Fung So, Ceridwyn King, & Beverley Sparks, 2012).

The relationship direction between customer perceived value and customer engagement is still being debatable as there is only limited study have simultaneously explored customer engagement and

perceived value in theoretical and empirical study. This study is following Van Doorn et al. (2010) theoretical study which argue that customer engagement is a consequence of perceived value. However, in term of the relationship between customer engagement and customer loyalty, most studies believed that customer engagement as the response of behavioural response with an emotional context is projected to affect customer loyalty et al.(K. K. F. So, C. King, & B. Sparks, 2012; So, King, Sparks, & Wang, 2014; Vivek et al., 2012).

Beside the direct relationship between customer perceived value, customer engagement and customer loyalty, the role of customer engagement as a mediating variable will also be explored in this study. Thus, the hypothesis are formulated as:

H1: There is a direct effect of perceived value on customer engagement.

H2: There is a direct effect of perceived value on customer loyalty.

H3: There is a direct effect of customer engagement on customer loyalty.

H4: Customer engagement mediates the effect of perceived value on customer loyalty.

Research Method

Constructs Operationalization and Questionnaire Development

Literature review and focus groups discussion were carried out in order to operationalize the constructs and building the questionnaire. The scale of the constructs were produced from the literature review and were validated through focus group discussions. Focus group discussions were conducted two times in small groups, to gain a deeper understanding of the constructs, especially for customer engagement as a new construct.

Seven point Likert's scale was used in the questionnaire, ranking from 1 (strongly disagree) to 7 (strongly agree). Perceived value construct is measured by 5 items, customer engagement measure by 10 items and customer loyalty measured by 5 items.

In order to avoid problems with the instructions, questionnaire design and scale validation, a pre-test of the questionnaire was conducted prior to the distribution of survey. Face validity was conducted as the first step of pre-testing procedures in order to ensure that the items on the questionnaire are capturing the empirical, theoretical and practical issues. Face validity test was conducted by exposing the questionnaire to a panel consists of three marketing expert and two airline practitioners who are asked to give comments on the items on the questionnaire.

The next step was randomly surveying 30 Indonesian 4-star airline passengers and they were also encouraged to give comments on the questionnaire wording. Furthermore, the data gathered was used to test the reliability of the items in the questionnaire. There were only minor grammatical changes done based on the pre-testing and the Cronbach's alphas for the entire scale was greater than 0.7, indicating that the items are reliable to measure the constructs.

Data Collection

Three hundred questionnaire were distributed to Indonesian 4-star airline passengers in two Airport in East Java Province Indonesia (Surabaya and Malang). After the exclusion of incomplete questionnaire, the response rate reach 83% (250 complete questionnaire). The data of 250 respondents is considered adequate and met the Structural Equation Modelling sample size minimum requirement of 200 observations.

The data gathered from a convenience sampling due to unavailable population data and resources limitation.

Data Analysis Technique

To test the theory in human behaviour context, Structural Equation Modelling (SEM) is considered the most appropriate tool (Schreiber, Nora, Stage, Barlow, & King, 2006). In SEM, the goodness of fit model needs to be satisfied before doing the hypothesis testing. Confirmatory Factor Analysis (CFA) was performed to ensure that the model specification fits and matches the actual condition or sample (Hurley et al., 1997). Prior to a CFA, the issues of validity, reliability and uni-dimensionality of the model should be assessed. If there is no issue of validity reliability and uni-dimensionality, then the CFA can be performed.

The CFA was conducted in order to evaluate the model fit indices, including the absolute fit indices (chi-square, RMSEA, GFI and SRMR), incremental fit indices (CFI and NFI) and parsimonious fit index (PGFI). Once the goodness-of-fit model is achieved, the hypothesis (Hypothesis 1-3) are tested by using AMOS 22 Software. Sobel's test (1982) was also used in this study to test the moderating effect of customer engagement.

The Sobel's test produce z scores that can be directly compared with the normal distribution table. A z value greater than 1.96 shows a significant mediation effect of M in 95% confident level. The calculation of Sobel's test can be done by using the equation as follow:

$$z = \frac{(a*b)}{\sqrt{b^2 * sa^2 + a^2 * sb^2}}$$

Where:

a: path coefficient of variable X and variable M.

b: path coefficient of variable M and

variable Y (when variable X also a predictor of Y).

sa: standard error of a

sb: standard error of b

Result and Discussion

The majority of respondents were in the age of 25-36 years (47.6%) and holding bachelor degree (40%). This study indicating that 59% of respondents are professionals and government officers, and more than half respondents (54%) flew with the airline for business purposes.

Confirmatory Factor Analysis in this study will be achieved by performing CFA for over identified model. The CFA was performed for the original proposed model and the results show inadequate fit indices. Thus, model modification was done. The first step in model modification was evaluating the regression weight of each item. The deletion of low regression weight item (less than 0.6) is required. As there is no item which has regression weight deleting two items (item 4 and

6) from customer engagement which have the biggest modification index. The deletion of these items resulting fit indices as follow:

$\chi 2/df = 1,295$; GFI = 0.933; PGFI = 0.720; CFI = 0.985; NFI = 0.936; RMSEA = 0.034.

In addition, the validity, reliability and uni-dimensionality have to be adequate to show that the model is fit the actual data/sample. Construct validity is assessed through factor loadings (cut off value of more than 0.6) and average variance extracted (AVE, cut off value of more than 0.6). The results of CFA show that all AVE are above the cut off value and the factor.

Loadings are also satisfactory (more than 0.6). In addition, discriminant validity can be evaluated through constructs' correlation. The correlation less than 0.85 means that discriminant validity is satisfactory. The result of the CFA indicate that the modified model has a good basis to test the path relationship among constructs. The results of validity and reliability test is displayed in table 1.

Table 1. Results of Validity and Reliability Test

Construct	Factor Loading	CR	AVE	Cronbach's Alpha
Customer Engagement				
CE1	0.674			
CE2	0.682			
CE3	0.718			
CE5	0.718	0.89	0.56	0.890
CE7	0.670			
CE8	0.770			
CE9	0.704			
CE10	0.739			
Perceived Value				
PV1	0.840			
PV2	0.766			
PV3	0.861	0.91	0.68	0.912
PV4	0.852			
PV5	0.788			
Customer Loyalty				
CL1	0.785			
CL2	0.705			
CL3	0.817	0.88	0.59	0.878
CL4	0.782			
CL5	0.754			

The hypothesis were tested by using Structural Equation Modelling (AMOS 22 software). The summary of the hypothesis testing will be displayed in Table 2.

Table 2. Results of Hypothesis Testing

Hypothesized Paths	Estimate	P	Remark
H1: Perceived value -) Customer Engagement	0.480	***	Not Supported
H2: Perceived value -) Customer Loyalty	0.160	***	Supported
H1: Customer Engagement -)Customer Loyalty	0.760	***	Supported
H1: Customer engagement mediates the relationship between perceived value and customer loyalty	N/A	***	Supported

The hypothesis testing results show that there is a significant relationship between perceived value and customer engagement (β= 0.480). Hypothesis 1 is supported as the p value is less than 0.05. The result of the significant relationship between perceived value and customer engagement supports the theoretical study done by Van Doorn et al. (2010). The positive path between perceived value and customer engagement shows that the higher customers' perception of value of service will lead to the higher level of customer psychological connexion with the brand. Furthermore, Van Doorn et al. (201 0) noted that customers might have their own goals which will influence their way to interact or patronizing the service. In the context of Indonesian airline passengers, it has been proven that optimizing the value of service is one of the customer's goals in patronizing the airline service. Thus, when customers perceived a higher value of service, then it will lead to the higher engagement.

The relationship between perceived value and customer loyalty which is proposed in hypothesis 2 is also supported as the p value is smaller than 0.05 (β= 0.160). This finding supports previous study which found that perceived value is an antecedent of customer loyalty (Edward

& Sahadev, 2011; Park, Robertson, & Wu, 2004; Ryu, Han, & Kim, 2008). However, customer perceived value only have a weak influence on customer loyalty which can be seen from the path coefficient (0.160). The weak path coefficient shows that for Indonesian airline passenger, the loyalty might also be affected by other constructs which are not included in the model or perceived value is not only directly affect customer loyalty, but also have indirect effect. Thus, the hypothesis 4 is proposed the mediating effect of customer engagement on the relationship between perceived value and customer loyalty. However. Before discussing the role of customer engagement as a mediator, the relationship between customer engagement and customer loyalty will be discussed next.

Hypothesis 3 proposed that customer engagement is directly affect loyalty. From the hypothesis test, the result shows that the higher customer engagement level does lead to the higher customer loyalty level as the p value is less than 0.05 with path coefficient of 0.760. The significant relationship between customer engagement and customer loyalty support theoretical studies done by Van Doorn et al. (2010) and (Bowden, 2009b) and the empirical study done by (K. K. F. So et

al., 2012). The results also implies that customer engagement as a new emerging construct which related to customer relationship marketing area is proven to be an essential to enhance customer loyalty. The path coefficient of the relationship between customer engagement and customer loyalty shows that there is a strong effect of customer engagement on customer loyalty. The more customer engage with the brand, the more likely the recommend the brand to other people.

The last hypothesis proposes a mediating role of customer engagement on the relationship between customers' perceived value and customer loyalty. Following Baron and Kenny's method (1986), the result shows that customer engagement mediates the relationship between perceived value and customer loyalty. Furthermore, after analysing the mediation effect by using Sobel's test (Sobel, 1982) The result shows that the customer engagement who perceived a higher value and also have a high level of engagement are more likely to have a higher level of loyalty. When customers perceived high value of service they will be more likely to show engagement behaviour such as being happy to play role as customer and sharing their experience with other customers. Furthermore, the engage customers will be likely to be a loyal customer. This finding supports study done by K. K. F. So et al. (2012) which found that customer engagement is significantly affect customer loyalty.
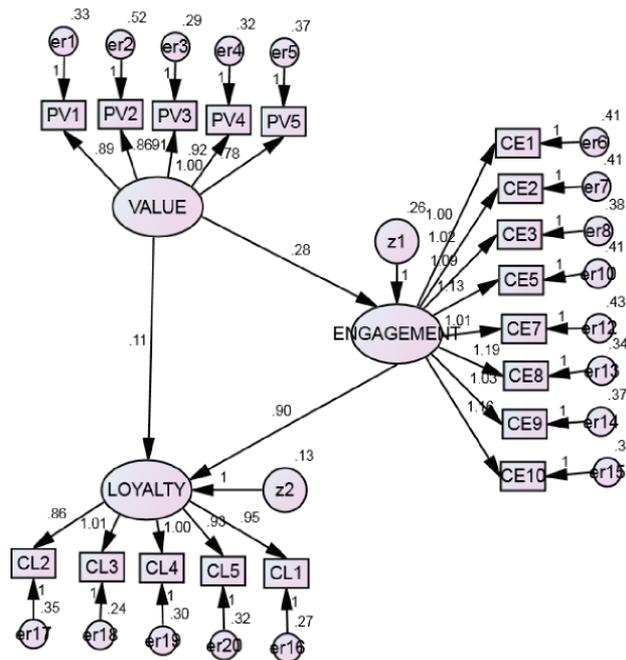
The structural model is displayed in figure 1.

Figure 1. Structural Model

Conclusion and Implications

The biggest theoretical contribution of this study is the confirmation of the model which include customer engagement in the model with other services marketing constructs. The inclusion of customer engagement is important in relationship marketing realm, as customer engagement can capture customers' behavioural expression which result from customers emotional and motivational drivers. Furthermore, this study support the theoretical study which discuss about potential antecedents and consequences

of customer engagement (Bowden, 2009; Brodie, Hollebeek, Jurić, & Ilić, 2011; Van Doorn et al., 2010).

The results also show that customer engagement is customer perceived value's consequence and customer loyalty's antecedent. Thus, when a services organization aims to build a relationship with customers by retaining loyal customers, the company needs to pay attention on how to make customer engage with the brand because the more customers engage with the brand, customer loyalty is more likely to be high. Since this study also proves that customer perceived value is a construct affecting customer engagement, airline companies need to deliver high value of service which leads to customer engagement and loyalty.

This study provides an empirical evidence which important to understand the relationship among customer perceived value, customer engagement and customer loyalty. However, this study also has some limitation that can be used as directions for future study. The results of this study cannot be generalized as the sample is drawn by using convenience sampling. Second, the discussion of this study is limited in the direct and indirect effect among constructs. Thus, future study should include moderator variable such as purpose of travel, gender or occupation in order to gain a better understanding of the interrelationship among constructs.

Notes on Contributors

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