



International Journal of Quality and Service Sciences

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Article information:

To cite this document:

Raditha Hapsari, Michael D. Clemes, David Dean, (2017) "The impact of service quality, customer engagement and selected marketing constructs on airline passenger loyalty", International Journal of Quality and Service Sciences, Vol. 9 Issue: 1, pp. 21-40, doi: 10.1108/IJQSS-07-2016-0048

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The impact of service quality, customer engagement and selected marketing constructs on airline passenger loyalty

Airline
passenger
loyalty

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Received 8 July 2016
Revised 20 October 2016
Accepted 26 October 2016

Abstract

Purpose – This study aims to empirically analyse the determinants of airline passenger loyalty in the high-frills Indonesian airline industry. The interrelationships among passenger loyalty, customer engagement, customer satisfaction, brand image, perceived value and service quality are identified and discussed.

Design/methodology/approach – The perceptions of 250 Indonesian airline passengers were used to examine the interrelationships among the constructs. The data set was analysed using confirmatory factor analysis and structural equation modelling.

Findings – The empirical results demonstrate that customer engagement has the most influential effect on passenger loyalty, followed by customer satisfaction. Customer satisfaction has the largest total effect on customer engagement. Service quality, perceived value and customer satisfaction also indirectly affect customer loyalty through mediation.

Originality/value – The integration of the customer engagement construct with the other important marketing constructs comprehensively explains the role of customer engagement on customer loyalty. The effects of the important marketing constructs on customer loyalty are not only explained in the direct relationships but also in indirect relationships through mediation.

Keywords Customer loyalty, Customer engagement, Structural equation modelling, Airline industry

Paper type Research paper

1. Introduction

Originally, engagement was proposed in the context of human resource management as a psychological connection to improve employee loyalty (Schaufeli *et al.*, 2002). More recently, scholars have been exploring customer engagement in a marketing context. The customer engagement construct, from a marketing perspective, is conceptualized as a customer's psychological connections with a particular brand (Brodie *et al.*, 2011). Vivek *et al.* (2012) propose that the psychological connection enables a customer to engage with a particular brand and become more loyal to the brand. Brodie *et al.* (2011) and Bowden (2009b) emphasize that keeping customers engaged is essential strategically to increase the number of loyal customers, as loyal customers are instrumental in the value creation process for most organizations.



However, customer engagement role in the formation of customer loyalty has been investigated in limited empirical studies, despite customer engagement's recent emergence as an important marketing construct (Brodie *et al.*, 2013; So *et al.*, 2014). Furthermore, the antecedents of customer engagement have not been extensively examined in the extant literature.

Customer engagement's impact on customer loyalty has been examined and discussed using qualitative and quantitative methods on virtual brand community, utilitarian and hedonic brand (Brodie *et al.*, 2013; Hollebeek, 2013), and by combining hotel and airline services using the perceptions from a generic sample (So *et al.*, 2014). More recently, customer engagement has also been identified as an important component of relationship marketing's extended domain (Bowden, 2009a; Brodie *et al.*, 2011). van Doorn *et al.* (2010) argue that if an organization can keep its customers highly engaged, the engagement underpins the organization's long-term relationship with their customer base approach that normally results in long-term customer profitability accruing from an increase in loyal customers.

Important higher-order marketing constructs such as service quality, perceived value, customer satisfaction and brand image are often noted as antecedents of customer loyalty (Clemes *et al.*, 2011; Cronin *et al.*, 2000). The interrelationships between these constructs have also been investigated in comprehensive studies on various service industries (Clemes *et al.*, 2014, 2011; Howat and Assaker, 2013; Park *et al.*, 2006). However, the exact fit of the customer engagement construct as an antecedent of customer loyalty, and its interrelationship with the other higher-order constructs, has not been examined specifically in the high-frills airline industry. Further, to date, no studies have analysed the customer engagement construct and its relationship with the other higher-order marketing constructs in an Association of South East Asian Nations (ASEAN) cultural setting. This current research addresses this research gap by examining the interrelationships between the higher-order marketing constructs, including customer engagement, based on the perceptions of Indonesian passengers travelling on a high-frills airline.

The global airline industry has also focused on improving customer loyalty to increase profitability, as it operates in a very competitive environment (Chen and Hu, 2010). For example, the ASEAN is applying an open skies policy in 2015. When this policy is fully operationalized, the competition within the South East Asian airline industry will intensify (Forsyth *et al.*, 2006). The Indonesian airline industry will need to build their customer base by increasing customer retention numbers to increase the airlines competitive advantage and succeed in the new ASEAN environment (Garuda Incar 10 Juta Penumpang ASEAN, 2015). The single aviation market will allow the airline companies from the ASEAN countries (Brunei Darussalam, Cambodia, Indonesia, Laos People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) to fly freely across the member country borders. The open skies policy is designed to enhance tourism and trade between the ASEAN countries. Indonesia is the largest and most populated country in South East Asia, with approximately 250 million people, and is the major airline market in South East Asia (Abeyratne, 2014).

2. Literature review and model development

2.1 Customer loyalty

Original studies on customer loyalty have defined the construct as a behavioural manifestation that includes re-patronizing or re-buying products/services (Jacoby and Kyner, 1973; Tellis, 1988). Recently, studies on customer loyalty are more comprehensive in nature, as scholars have added attitudinal loyalty as a psychological facet of customer loyalty (Chiou and Droge, 2006; Gounaris and Stathakopoulos, 2004). Aydin and Özer (2005)

characterize customer loyalty by re-purchase intention, resistance to switching to competitors and a willingness to recommend the service to others. This current study measures customer loyalty as a customer's intention to re-patronize and recommend a service to other people and remain loyal to the organization.

2.2 Customer engagement

So *et al.* (2012) identified five dimensions of customer engagement:

- (1) the level of a consumer's perceived unanimity with or sense of belonging to the brand (identification);
- (2) the level of attention which focuses and links with the brand (attention);
- (3) the level of passion and interest with the brand (enthusiasm);
- (4) a pleasurable condition for being very rigorous, happy and deeply absorbed when playing the role of customer of the brand (absorption); and
- (5) the various levels of participation that a customer has with the brand (interaction).

Bowden (2009a) and Brodie *et al.* (2011) argue that customer engagement enhances customer loyalty, as a high level of customer's engagement results in customers that have cognitive complacency with a brand. In addition, customers' actual engagement can be considered as a behaviour that comes from rational and emotional senses that can act to entrench customer loyalty to a service company (Bowden, 2009a). Furthermore, So *et al.* (2012) report that customer engagement significantly affects customers' intentions to recommend the brand to other people and re-patronize the service.

Thus, the first hypothesis is proposed:

- H1. There is a significant relationship between customer engagement and customer loyalty.

2.3 Service quality

Gronroos (1984) argued that service quality was the outcome of the evaluation process where the perceived service and the expected service were compared. Service quality has also been described as a form of attitude, as it is a global judgement on the superiority of the service provided by an organization (Parasuraman *et al.*, 1988). Service quality has been the focus of numerous studies since its early conceptualizations, as delivering positive levels of service quality creates a competitive advantage for an organization (Clemes *et al.*, 2014; Ladhari, 2008).

The relationships between service quality and constructs such as perceived value, brand image and customer satisfaction have been discussed in the literature and tested in a number of studies (Bloemer *et al.*, 1998; Hu *et al.*, 2009; Tam, 2004). The results of these studies suggest that service quality drives customers' perceived value if the quality of service they received exceeds their expectations. The better the service quality, the higher the customers' perceived value (Tam, 2004).

The second hypothesis is:

- H2. There is a direct significant positive relationship between service quality and perceived value.

In the context of the relationship between service quality and brand image, Grönroos (1984 and 2000) explains that service quality is the most important variable that influences customer perceptions of brand image. Saleem and Raja (2014) and Kandampully *et al.* (2011) investigate the interrelationships between service quality and brand image in Pakistani

hotels and Mauritian hotels, respectively. Both studies report that service quality has a positive effect on brand image. In the air transport industry, the significant effect of service quality on brand image is also reported in studies by Okeudo and Chikwendu (2013), Zins (2001) and Park *et al.* (2006).

The third hypothesis is:

H3. There is a direct significant positive relationship between service quality and brand image.

Service quality is identified as a robust predictor of customer satisfaction (Clemes *et al.*, 2014; Dagger *et al.*, 2007). Oliver (1980) developed the expectancy disconfirmation theory, arguing that customer behavioural loyalty is triggered when a customer buys a product or service he or she needs and the quality of the product or service exceeds his or her expectations. Customers who have experienced some level of quality when they receive a service will decide whether they are satisfied or not (Bloemer *et al.*, 1998).

The fourth hypothesis is:

H4. There is a direct significant positive relationship between service quality and customer satisfaction.

Service quality can also enhance customers' perceptions of brand image and boost their loyalty (Dagger *et al.*, 2007; Lai *et al.*, 2009; Saha and Theingi, 2009). Once customers experience superior service quality, their perception of that brand increases and they normally consider re-purchasing the service and recommending it to others.

The fifth hypothesis is:

H5. There is a direct significant positive relationship between service quality and customer loyalty.

2.4 Perceived value

Perceived value is described as the comparison between the cost (time, money and energy) given and the benefits received by the customers (Zeithaml *et al.*, 2013). Tam (2004) suggests that if customers perceive that the value or quality of a service received exceeds the costs of obtaining that service, it will result in high satisfaction and consequently may positively affect loyalty.

Several studies indicate that customer perceived value is a strong predictor of customer satisfaction. Lai and Chen (2011) find that customer perceived value has a positive effect on customer satisfaction: the higher the perception of value offered, the higher the satisfaction of public transport users. In a study on the Taiwanese hotel industry, Clemes *et al.* (2009) demonstrate that guests' satisfaction is significantly affected by their perceptions of the value obtained. Moreover, McDougall and Levesque (2000) report that perceived value is the strongest antecedent of customer satisfaction in an empirical study on restaurants, auto repair, hairstyling and dental services.

The sixth hypothesis is:

H6. There is a direct significant positive relationship between perceived value and customer satisfaction.

Yang and Peterson (2004) note that perceived value is the driver of customer loyalty in e-commerce. Similarly, Chen and Hu (2010) report a strong effect of perceived value on customer loyalty in a study on coffee outlets in Melbourne. Lai *et al.* (2009) and Yang *et al.* (2011) suggest that more attention should be paid to the perceived value construct by service providers, as it influences customer satisfaction and customer loyalty. In the airline industry,

perceived value is also noted as a significant antecedent of passenger loyalty (Park *et al.*, 2006).

The seventh hypothesis is:

H7. There is a direct significant positive relationship between perceived value and customer loyalty.

Customer perceived value is also recognized as the antecedent of customer engagement. Brodie *et al.* (2011) explain that perceived value has the potential to drive customer engagement. Verma *et al.* (2012) point out that the social and brand interaction values positively influence customer engagement with those who have a social media fan page. Once customers receive positive value from a service provider, they may be motivated to form a higher level of engagement with the service provider, either to receive more value in future transactions or for psychological reasons (Brodie *et al.*, 2013).

The eighth hypothesis is:

H8. There is a direct significant positive relationship between perceived value and customer engagement.

2.5 Customer satisfaction

Rust and Oliver (1994, p. 2) view customer satisfaction as “a summary cognitive and affective reaction to a service incident that results from the comparison of customers’ perceptions of service quality with their expectations of service performance”.

Customers who are satisfied with a product or service tend to have a good perception of the brand (Nguyen and LeBlanc, 1998; Saleem and Raja, 2014). Amin *et al.* (2013) report a significant relationship between customer satisfaction and brand image in Islamic banking in Malaysia. In hotels and resorts, customer satisfaction also significantly positively affects brand image (Faullant *et al.*, 2008; Hu *et al.*, 2009; Saleem and Raja, 2014).

The ninth hypothesis is:

H9. There is a direct significant relationship between customer satisfaction and brand image.

Several studies also indicate that customer satisfaction is a robust predictor of customer engagement. van Doorn *et al.* (2010) contend that the customers who are satisfied with the service provided will be more likely to have a long, enhanced interaction with the company. Furthermore, once customers find that a company can meet their needs and satisfy them, then they may experience pride and confidence in the brand, believe in its integrity and have a passion towards the brand (Brodie *et al.*, 2011).

The tenth hypothesis is:

H10. There is a direct significant relationship between customer satisfaction and customer engagement.

Customer satisfaction is also likely to impact on loyalty. Hu *et al.* (2009) and Jen *et al.* (2011) observe that satisfied customers tend to be loyal, reflected by favourable behavioural intention. Jaiswal and Niraj (2011) and Yuksel *et al.* (2010) illustrate that customer satisfaction significantly and positively affects customer loyalty.

The eleventh hypothesis is:

H11. There is a direct significant relationship between customer satisfaction and customer loyalty.

2.6 Brand image

Keller (2013, p. 3) explains that brand image is a “perception about a brand as reflected by the brand associations held in a consumer’s memory”. Yang *et al.* (2011) report that airline image has a significant positive influence on loyalty, as reflected in the behavioural intentions of Taiwanese air travellers. Therefore, the next hypothesis is:

H12. There is a direct significant relationship between brand image and customer loyalty.

Conceptually, brand image also has a positive relationship with customer engagement (van Doorn *et al.*, 2010). De Matos and Rossi’s (2008) findings indicate that the higher a brand’s reputation, the more likely it is that customers will be engaged with the brand in positive ways.

The next hypothesis is:

H13. There is a direct significant relationship between brand image and customer engagement.

2.7 The indirect effects among the investigated constructs

Perceived value is reported to mediate the relationship between service quality and customer loyalty in various industries (Cronin *et al.*, 2000; Kuo *et al.*, 2013). Hu *et al.* (2009) note that brand image mediates the relationship between service quality and customer loyalty. Several studies also note that customer satisfaction plays a mediating role between service quality and customer loyalty (Bloemer *et al.*, 1998; Caruana, 2002; Kuo *et al.*, 2013). Thus, we hypothesize:

H14a. Perceived value mediates the effect of service quality on customer loyalty.

H14b. Brand image mediates the effect of service quality on customer loyalty.

H14c. Customer satisfaction mediates the effect of service quality on customer loyalty.

The theory of reasoned action by Ajzen and Fishbein (1980) shows that an affective variable plays a mediating role between cognitive and conative variables. Perceived value, as a determinant of customer loyalty, not only has a direct effect but also has an indirect effect on customer loyalty. Patterson and Spreng (1997) found that the effect of perceived value on loyalty was mediated by customer satisfaction. The mediating role of customer satisfaction on the relationship between perceived value and customer loyalty is also supported in studies by Eggert and Ulaga (2002), Lam *et al.* (2004) and Lin and Wang (2006).

In this current study, perceived value (a cognitive variable) is projected to be mediated by customer satisfaction (an affective variable) to affect customer loyalty (a conative variable).

Thus, the following hypotheses are formulated:

H15a. Customer satisfaction mediates the effect of perceived value on customer loyalty.

H15b. Customer engagement mediates the effect of perceived value on customer loyalty.

The next two hypotheses refer to direct relationships proposed between customer satisfaction, brand image and customer loyalty. There is evidence that customer engagement performs a mediating role in the relationship between customer satisfaction and customer loyalty (Bowden, 2009; Brodie *et al.*, 2011, 2013; van Doorn *et al.*, 2010).

Therefore:

H16. Customer engagement mediates the relationship between customer satisfaction and customer loyalty.

H17. Customer engagement mediates the relationship between brand image and customer loyalty.

3. Research design

The questionnaire applied in this current research was designed following an extensive review of the literature and based on information obtained from focus group interviews (Figure 1). The literature review produced scales for the perceived value, brand image, passenger satisfaction and passenger loyalty, as these scales have been developed and applied in marketing research on a variety of service industries and cultural settings. However, the Indonesian context may contain unique customer and cultural characteristics that influence customers' perceptions of service quality and customer engagement. So *et al.* (2012) developed a scale of customer engagement for tourism brands that was adapted in this current study. Focus group discussions were also conducted to facilitate the development of the service quality measurement items and the scale for customer engagement.

The focus group discussions began when the researcher informed the participants about the main objectives of the group discussions and the domain of the constructs under investigation. Participants were asked to list all of the factors that formed their perceptions of Indonesian airline service quality. In the next step, participants were asked to evaluate their experience flying with Indonesian airlines. This step was conducted to help ensure that no important factors were omitted from the discussions. The same process was followed to generate valid measurement items for the customer engagement construct. First, the domain of the customer engagement construct was explained and then participants were asked to list any kind of behaviour or attitude that related to a personal connection with a brand. The final step was designed to generate a discussion about participants' opinions on the measurement of other operationalized constructs that were generated from the literature review. The items used for perceived value, brand image, customer satisfaction and customer loyalty were presented and participants were asked for their opinions. A discussion followed and those items that were written clearly and easily understood were accepted. The items that were not

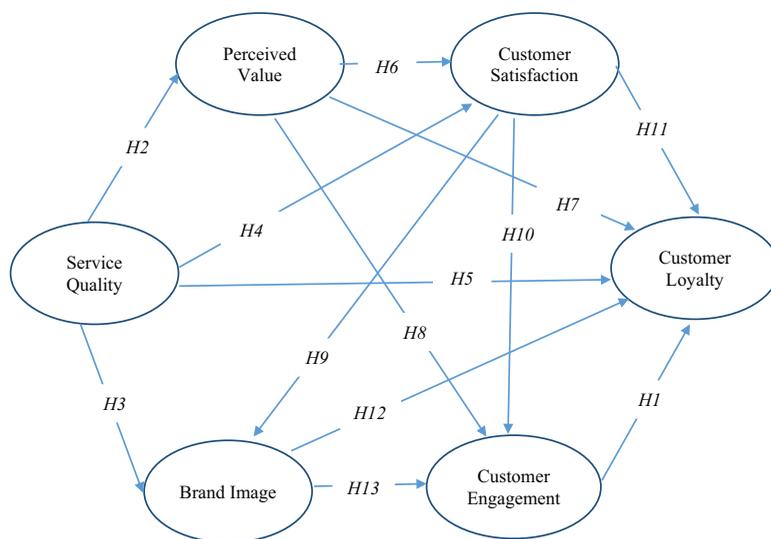


Figure 1. The conceptual research model

clear in meaning or interpretation were re-phrased to better represent the construct under investigation.

Prior to distributing the final survey, a pre-test and pilot test were conducted to improve the face and content validity of the initial version of the survey instrument. Face and content validity assessment for the initial version of the survey instrument was performed using a two-step process. The first step involved asking two service marketing experts and two airline industry experts to review the instrument and ensure the items were an adequate and thorough representation of the constructs under investigation. The second step involved asking a representative group of airline passengers to review the survey questions and make comments on the instrument.

A convenience sample was drawn from 30 customers of a five-star Indonesian airline. Respondents taking part in the pilot study were encouraged to make comments and suggestions on any statements they thought were ambiguous or difficult to categorize. Some minor modifications of the questionnaire, such as clarifying the meaning of sentences and using appropriate words, were made following the results of the pre-test. The original design of the questionnaire was in English, and a translation/back translation method was applied to obtain accurate responses from Indonesian airline passengers (Willgerodt *et al.*, 2005).

All items in the questionnaire used a standard seven-point Likert-type scale ranging from Strongly Disagree (1) to Strongly Agree (7). See Table II for a summary of the items (Hair *et al.*, 2010). A performance-based measurement was used in this study to assess the interrelationship between the constructs (Cronin and Taylor, 1994).

The research sample was drawn from the customers of the only five-star airline in Indonesia. A face-to-face survey was conducted in airports in Surabaya and Malang, Indonesia, using a convenience sampling approach. Convenience sampling was used in this study because an important component of the research is testing the theory on the interrelationship between the six marketing constructs. In addition, the large number of observations required and resource limitations made convenience sampling the most suitable sampling method (Zikmund and Babin, 2010).

Three hundred questionnaires were distributed to potential respondents. Potential participants were told that they could withdraw from the study at any time, and 29 participants took this option and did not complete the questionnaire. Twenty-one of the returned questionnaires were excluded, as they were incomplete or not suitable for use, resulting in a total of 250 useable responses.

The data collected from the survey were analysed using the programs: SPSS 22 and AMOS 22. To ensure that the data set was free of early-late response bias, Levene's test for equality of variances and *t*-test for equality of means were conducted (Armstrong and Overton, 1977). The results indicate no response bias between early and the late respondents. Missing values accounted for less than 5 per cent and appeared in a non-systematic random pattern. The mean substitution method was used to substitute all missing values (Hair *et al.*, 2010).

The first stage of the empirical investigation involved performing confirmatory factor analysis (CFA), which is applied to test if the model specification fits and matches the actual condition or sample (Harrington, 2008). Structural equation modelling (SEM) was conducted in the second step. SEM was used to test *H1* to *H17* on the interrelationships between customer loyalty, customer engagement, service quality, perceived value, customer satisfaction and brand image.

4. Results

The demographic characteristics of the respondents are displayed in Table I.

	Characteristic	Frequency	(%)
Gender	Male	146	58.4
	Female	104	41.6
Age (years)	18-25	65	26
	26-35	119	47.6
	36-45	31	12.4
	46-55	27	10.8
	Over 55	8	3.2
Education	High school	78	31.2
	Diploma	37	14.8
	Bachelor degree	100	40.0
	Master degree	31	12.4
Occupation	Doctoral degree	7	2.8
	Professional	49	19.6
	Student	27	10.8
	Retired	3	1.2
	Housewife	20	8
	Business owner	50	20
	Government officer	97	38.8
Loyalty programme	Other	4	1.6
	Member	119	47.6
Travel purpose	Non-member	131	52.4
	Business	137	54.8
	Leisure	113	45.2

Table I.
Demographic
characteristics of
respondents

The CFA conducted on the original measurement model indicated unfit indices (χ^2/df : 3.030, PGFI: 0.725, 0.646, GFI: 0.690, RMSEA: 0.090, SRMR: 0.039, NFI: 0.858, CFI: 0.844). The result required a model modification to improve the goodness-of-fit indices, as they were not in acceptable ranges. An improvement in model fit may be achieved by deleting 20 per cent or less from the total items, measuring each construct and then re-specifying the model (Hair *et al.*, 2010). The high value of the modification indices (MI) indicated that two items were redundant and needed to be deleted.

The model modification was completed by removing one item from the service quality, perceived value, customer satisfaction, brand image and customer loyalty constructs, and two items measuring the customer engagement construct. The model modification resulted in a good model fit (χ^2/df = 1.400; PGFI = 0.734; GFI = 0.868; RMSEA = 0.040; SRMR = 0.038; NFI = 0.893; CFI = 0.967).

The discriminant validity test was also conducted, resulting in acceptable average variance extract (AVE) and construct reliability (CR). **Table II** shows the factor loading, AVE, CR and Cronbach's alpha values for the investigated constructs.

The results of hypothesis tests are shown in **Tables III** and **IV**.

Table III shows the results of hypothesis tests on the direct relationships among the constructs. From the 13 hypotheses formulated, eight are supported, as the p values are less than 0.05, and the remaining five are not supported, as the p values are greater than 0.05. Furthermore, the results demonstrate largest estimate value (0.861) is the relationship between customer satisfaction and customer engagement.

The results of the indirect relationships' tests are presented in **Table IV**. There are seven hypotheses relating the indirect relationships among constructs. Six hypotheses are accepted based on **Baron and Kenny's (1986)** mediation test. There are three types of mediation effects. Partial mediation occurs when the exogenous variable (X) is significantly

Item description	Factor loading	CR	AVE	Cronbach's alpha
<i>Customer loyalty (Mean = 5.87)</i>				
CL1. I intend to say positive thing about this airline to other people	0.79			
CL2. I intend to fly with this airline again in the future	0.75			
CL3. I intend to encourage relatives and friends to fly with this airline	0.82			
CL5. Overall, given the other choices of airline companies, I will remain flying with this airline	0.80	0.89	0.62	0.87
Sources: Brodie <i>et al.</i> (2009), Chen and Chang (2008), Hu <i>et al.</i> (2009), Nadiri <i>et al.</i> (2008), Saha (2009), So <i>et al.</i> (2012)				
<i>Customer engagement (Mean = 5.87)</i>				
CE1. I am proud of this airline's success	0.68			
CE2. When someone praises this airline, it feels like a personal compliment	0.68			
CE3. I am passionate about this airline	0.72			
CE5. I pay a lot of attention to any information about this airline	0.71			
CE7. When interacting with this airline, it is difficult to detach myself	0.68			
CE8. I am immersed in my interaction with this airline	0.77			
CE9. I am someone who enjoys interacting with like-minded others that fly with this airline	0.71			
CE10. In general, I thoroughly enjoy exchanging ideas with other people that fly with this airline	0.73	0.89	0.50	0.91
Sources: So <i>et al.</i> (2012)				
<i>Service quality (Mean = 5.87)</i>				
SQ1. The staff of this airline deliver superior services	0.79			
SQ2. Overall, the in-flight facilities in this airline are excellent	0.73			
SQ3. This airline has a convenient flight schedule	0.86			0.91
SQ4. This airline has convenient reservation and ticketing systems	0.75			
SQ5. This airline offers an excellent security system	0.78			
SQ6. I feel safe when I fly with this airline	0.82	0.92	0.62	
SQ7. This airline offers excellent baggage handling services	0.77			
Sources: Chen and Chang (2008), Gilbert and Wong (2003), Saha (2009), Teye and Leclerc (1998)				

Table II.
Validity and reliability
assessments

(continued)

Item description	Factor loading	CR	AVE	Cronbach's alpha
<i>Perceived value (Mean = 5.52)</i>				
PV1. Considering the ticket price I paid for the airline, I believe that the airline offers excellent services	0.85			
PV3. Compared to what I have given up (including money, energy, time and effort), the overall service of this airline is excellent	0.85			
PV4. Overall, this airline offers good value for money	0.84			
PV5. Overall, this airline's services and goods are valuable	0.80	0.90	0.70	0.91
Sources: Brodie <i>et al.</i> (2009), Chen (2008), Cronin <i>et al.</i> (2000), Patterson and Spreng (1997), Ryu <i>et al.</i> (2008), Saha (2009)				
<i>Brand image (Mean = 5.01)</i>				
BI1. I believe that this airline has a better image than its competitors	0.86			
BI2. This airline has a good reputation for safety	0.82			
BI3. I have always had a good impression of this airline	0.83			
BI5. Overall, I believe that this airline has a positive image in the marketplace	0.82	0.89	0.68	0.93
Sources: Echtner and Ritchie (1991), Kandampully and Suhartanto (2003), Low and Lamb (2000)				
<i>Customer satisfaction (Mean = 5.65)</i>				
CS1. I had a satisfying experience flying with this airline	0.83			
CS2. I did the right thing when I choose to fly with this airline	0.82	0.88	0.65	0.88
CS3. I normally have a pleasant flight with this airline	0.80			
CS5. Overall, this airline provides a very satisfying experience	0.78			
Sources: Brodie <i>et al.</i> (2009), Chen (2008), Cronin <i>et al.</i> (2000), McCollough <i>et al.</i> (2000)				

Table II.

related to the mediating variable (M), and M is also significantly related to the endogenous variable (Y), but the magnitude of the direct effect from X to Y is diminished by adding M in the relationship. The second type of mediation effect is full mediation, which occurs when the direct relationship between variable X and Y is insignificant when variable M is entered into the relationship. The last type of mediation occurs when the presence of variable M in the relationship does not change the significance and magnitude of the relationship between variable X and Y (Awang, 2012; Meyers *et al.*, 2013).

Table III.

The results of the direct relationships among constructs

Hypothesized paths	Estimate	CR	<i>p</i>	Result
<i>H1</i> . Customer engagement → Customer loyalty	0.659	5.629	***	Supported
<i>H2</i> . Service quality → Perceived value	0.822	11.866	***	Supported
<i>H3</i> . Service quality → Brand image	0.196	2.222	0.027	Supported
<i>H4</i> . Service quality → Customer satisfaction	0.241	2.090	0.037	Supported
<i>H5</i> . Service quality → Customer loyalty	0.054	0.579	0.563	Not supported
<i>H6</i> . Perceived value → Customer satisfaction	0.447	3.764	***	Supported
<i>H7</i> . Perceived value → Customer Loyalty	-0.054	-0.541	0.588	Not supported
<i>H8</i> . Perceived value → Customer engagement	-0.075	-1.069	0.285	Not supported
<i>H9</i> . Customer satisfaction → Brand Image	0.187	2.070	0.038	Supported
<i>H10</i> . Customer satisfaction → Customer engagement	0.861	8.376	***	Supported
<i>H11</i> . Customer satisfaction → Customer loyalty	0.243	1.998	0.046	Supported
<i>H12</i> . Brand image → Customer loyalty	-0.035	-0.707	0.480	Not supported
<i>H13</i> . Brand image → Customer engagement	0.043	0.815	0.415	Not supported

Note: *** Statistically significant at $p < 0.001$

Table IV.

The results of the indirect relationships among constructs

Hypothesized path	Direct causal path	Indirect causal path with mediating variable	Mediation	Result
<i>H14a</i> . SQ → PV → CL	$\beta = 0.451$ (***)	$\beta = 0.234$ (0.073)	Fully mediated	Supported
<i>H14b</i> . SQ → BI → CL	$\beta = 0.451$ (***)	-	Not mediated	Not Supported
<i>H14c</i> . SQ → CS → CL	$\beta = 0.451$ (***)	$\beta = -0.026$ (0.707)	Fully mediated	Supported
<i>H15a</i> . PV → CS → CL	$\beta = 0.461$ (***)	$\beta = -0.062$ (0.405)	Fully mediated	Supported
<i>H15b</i> . PV → CE → CL	$\beta = 0.461$ (***)	$\beta = 0.056$ (0.319)	Fully mediated	Supported
<i>H16</i> . CS → CE → CL	$\beta = 0.776$ (***)	$\beta = 0.235$ (0.021)	Partially mediated	Supported
<i>H17</i> . BI → CE → CL	$\beta = 0.254$ (***)	$\beta = 0.003$ (0.960)	Fully mediated	Supported

Note: *** Statistically significant at $p < 0.001$

5. Discussion and implications

The empirical results demonstrate that service quality, perceived value, customer satisfaction, brand image and customer engagement are significant predictors of customer loyalty.

Measuring the effect of customer engagement on customer loyalty in a more comprehensive hierarchical model is an important development for the global airline industry. The customer engagement construct has only been empirically measured in a few studies. Empirical studies on customer engagement have been conducted on physical goods (Sprott *et al.*, 2009; Vivek *et al.*, 2014); social media (Hollebeek *et al.*, 2014); a combination of the hotel and airline industries (So *et al.*, 2012, 2014); and online websites and social media (Calder *et al.*, 2009; Hollebeek *et al.*, 2014). In addition, studies on customer engagement have been conducted using qualitative research methods (Brodie *et al.*, 2013; Hollebeek, 2011).

In this study, measuring the effect of customer engagement on customer loyalty is the most important and influential finding, as this is the first empirical study that integrates customer engagement with other higher-order marketing constructs based on perceptions of Indonesian airline passengers. The seminal results substantiate that customer engagement has the most significant effect on customer loyalty compared to the other variables.

The results of this study demonstrate that psychological processes and the psychological connection between a customer and a particular brand drive a behavioural intention to

re-patronize an airline service. The emotional aspect of engagement is also important in enhancing customer loyalty. Engaged customers may be proud of the airline's success, and when customers hear a compliment about "their" airline, it can act like a compliment for themselves, further strengthening a strong psychological connection with the particular airline brand. These types of connections make it more likely that customers will have a sustained relationship with the brand and this relationship will motivate them to recommend and re-patronize the airline service. Thus, engaged customers are more likely to have a higher behavioural intention to re-patronizing the service and recommend the brand to other people than non-engaged customers.

As customer engagement has been proven as an important construct affecting customer loyalty, there is a heightened need to understand what other constructs have a positive influence on customer engagement. Based on the SEM analysis, customer satisfaction is an important construct affecting customer engagement. The relationship between customer satisfaction and customer engagement is positive and significant ($\beta = 0.861, t = 8.376$), illustrating that highly satisfied customers are more likely to engage with the brand.

This current research not only found a direct relationship between customer engagement and other marketing constructs, but also examined the mediating role of customer engagement. An interesting finding in this current study is the mediating effect of customer engagement on the relationship between perceived value and customer loyalty.

Perceived value was found to indirectly affect loyalty through customer engagement, although customer perceived value does not directly affect customer loyalty. Thus, it is important to ensure that customers perceive a high value of service to create customer loyalty.

The customer engagement construct has only recently attracted the attention of marketing scholars, as they begin to investigate the construct's importance in a marketing context (Brodie *et al.*, 2011; Vivek *et al.*, 2012). This current research validates the customer engagement measurement items and illustrates that customer engagement is an important predictor of customer loyalty. In addition, this study illustrates that customer engagement mediates the effect of customer satisfaction on customer loyalty. These findings indicate that customer engagement is an important construct for the high-frills airline industry to include when they formulate their strategic marketing.

The findings in this study also make a contribution to the extant literature on services, in particular, the literature on the airline service industry. The model in this current study explains the interrelationships among important marketing constructs in the services sector: service quality, perceived value, customer satisfaction, brand image, customer engagement and customer loyalty, using a hierarchical model as the framework. This current study not only empirically examines the direct relationships but also the mediating effects among the selected constructs.

From a managerial perspective, measuring customer engagement's impact on customer loyalty reflects psychological processes and illustrates the connection between customers and a particular brand. The connection drives favourable behavioural intentions and encourages re-patronizing an airline's service. The high technology available in communications also encourages customers to show their affective, cognitive and emotional aspects of engagement, and this helps to trigger favourable behavioural intentions towards the brand.

Indonesian airlines need to foster customer engagement to retain more loyal passengers and improve their competitiveness. There are several methods that management can use to enhance customer engagement in the airline industry. Creating excitement and passion in customers for an airline's brand enhances customer engagement. Customers' excitement and

passion towards a particular brand can be created by enhancing brand prestige and customers' social recognition (Bizman and Yinon, 2002). Once five-star airlines are aware of how important customer engagement is as an antecedent of increased customer loyalty, they should be able to create customer excitement and passion. Five-star airlines usually have a stable and positive brand image to gain their ranking and they should be able to take advantage of their perceptual position in the airline industry to stimulate excitement and passion.

Two other important drivers of customer engagement are customers' attention and absorption towards an airline brand. To support customers' brand attention and absorption, airline management need to ensure that positive information, news or publicity related to the airline is easily accessed by customers. Building a user-friendly website and participating in corporate social responsibility programmes are two methods that can be used to gain the attention of and motivate customers.

Airline companies also need to build a strong brand community to further facilitate customers' interaction, as another driver of customer engagement. Engaged customers enjoy sharing their experience with other like-minded customers. Thus, airline companies can organize social events that will encourage their customers to meet each other and share their airline service experiences. These types of social interactions should help keep customers engaged with the airline.

Customer engagement has a strong impact on customer loyalty. Therefore, airline management should capitalize on the positive impact that customer satisfaction also has on customer engagement. Satisfied flying experiences may result in an increase in engaged customers. For example, a customer who is satisfied with an airline's ground services (ticket booking, baggage handling), and also satisfied with an airline's in-flight service (in-flight entertainment, meals, employee courtesy), is more likely to be engaged with the airline than customers who have an unfavourable outcome.

The positive, significant effect of satisfaction on loyalty confirms that satisfied customers are more likely to have the intention of re-patronizing the airline service. When a customer is satisfied with the service provided, then the service they bought has fulfilled their needs and wants. Customers that are satisfied with their flight experience and are happy with their decision to fly with a particular airline are more likely to say positive things about the airline to other people. In addition, satisfied airline passengers tend to choose the same airline over other airline companies.

Service quality has a direct impact on airline passenger satisfaction. Airline customers who perceive that they have had a high level of service quality normally have a high level of satisfaction. Strategically, it is vital that high-frills airlines ensure that they resource and deliver high levels of interaction quality (e.g. professional staff, courteous staff), physical environment quality (e.g. inflight facilities) and outcome quality (e.g. safety and security) to keep customers satisfied.

Service quality also has a direct and positive influence on perceived value. Airline management must provide value for money. In particular, high-frills airlines need to ensure they deliver a consistent level of service quality, as customers normally pay a higher price to travel on high-ranking carriers. If customers perceive they did not receive a high value for their ticket price, some will switch to other airlines.

The importance of the service quality construct is also illustrated by its direct, positive effect on brand image. A plethora of airline advertising focuses on the brand. However, high-frills airlines need to be continually aware of the important impact of service quality on the brand. Advertising and promotion alone will not ensure a positive brand image without being supported by customer-acceptable levels of service quality.

The direct impacts of service quality on customer loyalty, perceived value on customer loyalty, perceived value on customer engagement, brand image on customer loyalty and brand image on customer engagement were not supported in the results of the SEM. However, mediation was present on the relationships tested between service quality and customer loyalty, perceived value and customer loyalty and brand image and customer loyalty.

Indonesian airline management must be cognizant of the mediation effects when they develop their marketing strategies. For example, customer satisfaction and perceived value mediate the relationship between service quality and customer loyalty. This result reinforces the need for airline management to ensure they satisfy their customers. In addition, customer satisfaction and customer engagement mediate the relationship between perceived value and customer loyalty, confirming the importance to airline management of offering value for money.

The seminal results identifying the mediating effect of customer engagement on the relationship between brand image and customer loyalty is important information for airline management. This result strongly supports initiatives that will keep customers engaged with an airline. Management should ensure that they have a thorough understanding of the engagement construct and how to correctly measure the level of customer engagement. Airline brand image can be conceptualized through two aspects: the tangible aspect and the emotional aspect. Passengers expect that when they choose a high-frills or five-star airline, they will receive a better service compared to low-cost carriers or lower-ranked airlines. In addition, choosing an airline brand with a positive image may increase their pride and motivate them to be more engaged with the airline brand. A passenger who has a positive image of an airline and who is engaged is more likely to repeat as a customer and voluntarily recommend other people to fly with the airline.

6. Limitations and direction for future research

In addition to its theoretical contributions and the practical implications, this current research also has limitations. The results of this study are based on a convenience sample and the perceptions of the passengers of the only five-star airline company in Indonesia. A convenience sample does not represent the population of all Indonesian airline passengers. Hence, these results must be generalized with caution to non-star airline passengers or low-frills airline passengers in Indonesia and other countries.

In this study, loyalty is measured based on behavioural intentions. This research did not measure actual loyalty, as the intention is considered as an accurate predictor of actual behaviour (Ajzen and Fishbein, 1980). However, a loyal behavioural intention might not translate into the actual behaviour if customers face any obstacles to loyalty, such as an unavailable product, switching incentives and customer idiosyncrasies (Oliver, 1999).

A deeper understanding of the customer engagement construct may be gained by an exploratory study. Some scholars (Sprott *et al.*, 2009) consider that customer engagement is a single construct, while other scholars suggest that customer engagement is a multi-dimensional construct (Bowden, 2009b; Patterson *et al.*, 2006; So *et al.*, 2012). An exploratory study should provide new insights into the dimensions and the structure of the customer engagement construct.

Future research may replicate the conceptual research model used in this study and apply it to predict loyalty in other service industries and in other countries with different cultures. A replication of this framework used in this study to other industrial settings will enhance the understanding of the factors affecting customer loyalty, especially in the domain of customer relationship management. In addition, there is a need to certify research models in

one setting with empirical examinations in other settings. Hence, investigating if the theoretical relationships identified in this study can be generalized to all airline passengers, both star and non-star (low frills), will add to the extant literature.

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