

Preliminary Thesis Report

BI Norwegian Business School

- Customer Satisfaction and Customer Loyalty on a Company Level -

Examination code and name:

GRA 19502

Hand-in date:

16.01.2017

Campus:

BI Oslo

Programme:

Master of Science in Strategic Marketing Management

Supervisor:

Associate Professor Line Lervik Olsen

Table of Contents

INTRODUCTION	1
RESEARCH AREA AND RESEARCH QUESTION	1
LITERATURE REVIEW	3
CUSTOMER SATISFACTION	3
<i>Customer Satisfaction over time</i>	4
CUSTOMER LOYALTY	5
CUSTOMER CENTRICITY	6
MARKET ORIENTATION.....	8
NATIONAL CUSTOMER SATISFACTION BAROMETER	9
<i>Price and Service Quality</i>	10
<i>Complaint handling</i>	12
<i>Innovation</i>	14
CONCEPTUAL MODEL	16
METHODOLOGY	17
CONCLUSION	18
THEORETICAL CONTRIBUTION.....	18
MANAGERIAL CONTRIBUTION	18
LIMITATIONS.....	19
REFERENCES.....	20

Introduction

This paper is a preliminary thesis to our master thesis due September 1st 2017. It is an indication for our master thesis and provides some direction for our inquiry. It is worth to mention that this is a work in progress and therefore changes with the research can occur throughout the process, as we may discover new evidence with our further research.

The paper includes an introduction where we propose the research topic and question, and why it is of relevance. We will build on this with a literature review with applicable existing literature to our research topic. Then, we will present a conceptual model, and discuss what kind of research design and method that will be most suitable for our research question. Lastly, we will conclude with expectations on what results we will get with our research.

Research area and research question

In our master thesis we hope to bring to light what happens inside service organisations over time with regard to customer satisfaction and customer loyalty. This idea is related to the Norwegian Customer Satisfaction Barometer (NCSB), and other providers of satisfaction measurement results. The reason why we will look at customer satisfaction and loyalty at a company level is to explore how these elements are considered and evaluated within the organisation, in comparison to how customers evaluate the service. It is also of interest to check if there are other factors that affect the outcome of customer satisfaction and loyalty scores, other than those already considered in the NCSB.

Within the service industry it exists high competition, thus it is crucial to maintain customers satisfied to generate more loyal consumes and better financial results (Fornell et al., 1996). Customer satisfaction and loyalty within the service industry is a well-known phenomenon, and firms are in general focusing on getting satisfied and loyal customers by using customer satisfaction measurement to evaluate their performance on services (intangible and tangible), and employee's performance. Obtaining a good understanding of customer needs, the industry

structure and market trends is vital for service providers and a source of competitive advantage (Kumar et al., 2011).

Customers expectations are increasing, and they are demanding higher standards of service, which results in more challenges for service providers. Consequently, it is crucial to understand customers and how to make them satisfied in that manner that they prefer your service above another. The essence of customer satisfaction is an indicator of a firm's performance, that is also linked to a firm's market share and their financial results (Fornell et al., 1996). There is also an increase in word-of-mouth, and this makes companies more vulnerable if customers are not satisfied, because the negative word will reach a lot of people really fast. On the other hand, it is a good outcome for the company if the word is positive.

Throughout our study we have chosen to focus on the two airline companies, SAS and Norwegian. The airline industry is characterized by great competition and price pressure that demand a continuous requirement to improve efficiency. People are travelling more due to increased prosperity, and with attractive prices due to price pressure, has resulted in turning the airline industry into a growth sector (SAS, 2016). Over the last years, customers are demanding more comfort and efficiency as well as lower prices, which have expanded airlines' offerings in the air, on the ground and digitally. The trend in the airline industry is for a more comprehensive polarization of products and services over the whole price spectrum, and also a much larger priority on loyalty programs (SAS, 2016).

There can be a lot of reasons for why satisfaction changes over time within a specific service industry, and these factors are what we acquire to find out. Therefore, our research question is as follows:

“Which factors has an impact on customer satisfaction over time, within different companies with different success rates.”

Literature Review

In this part we will present the underlying literature for our research, which consist of evaluating customer satisfaction and loyalty on a company level, over time. We will build a solid foundation for our chosen hypotheses, research model and defined research question, based on relevant theory and findings from previous research. The literature review will include theory and findings that are of relevance for our thesis, such as customer satisfaction and loyalty, customer centricity, market orientation and chosen factors from the NCSB.

Customer Satisfaction

Customer satisfaction within the service industry is a well-known research phenomenon. Early research described customer satisfaction as customers' expectations and perceived performance (Fornell, 1992). Firms are in general focusing on getting satisfied and loyal customers by using customer satisfaction measurement to evaluate their performance on services and employee performance. It has also an impact on a firm's financial performance, as Anderson et al. (1997) found that it is a positive relationship between customer satisfaction and financial performance.

Homburg and Giering (2001) reveals that the relationship between customer satisfaction and customer loyalty is determined by characteristics of the customer. Factors such as variety seeking, age, and income are important moderators of this relationship. This follows the reasoning Dick and Basu (1994) are discussing, that social norms and factors have an impact on the relationship between customer satisfaction and customer loyalty.

To get a better understanding of what customer satisfaction includes, Anderson et al. (1994) divided customer satisfaction into two concepts: transaction specific and cumulative. The difference between the two perspectives is that the transaction specific view sees customer satisfaction as a post choice evaluative judgment of a specific purchase, while cumulative is an overall evaluation based on the total purchase over time (Anderson et al., 1994).

For consumers to remain satisfied and stay loyal, it is important to look at which factors that the consumers perceive important to stay with a firm. This relates to stickiness, which Lervik-Olsen, van Oest and Verhoef (work in progress) has defined as “the degree of carry-over effect from previous customer satisfaction to current customer satisfaction.” Factors that influence how “sticky” consumers are towards a firm includes consumer confidence, advertising activity, service, contractual setting and company size. These influencers are important to define and consider when studying customer satisfaction over time (Lervik-Olsen et al., work in progress).

Mittal et al. (1999) states that the main drivers of overall satisfaction for a customer can vary over time, and that customers that have been with a specific firm for shifting lengths of time could value different attributes. Consequently, companies have to put emphasis on that the importance of an attribute today for one customer's overall satisfaction is not static over time, which means that it can have a different impact later in the relationship (Mittal et al., 2001). Yet, there are very few companies that incorporate temporal changes with the attributes importance, when they are examining overall customer satisfaction (Mittal et al., 2001).

It is also demonstrated that an attribute's importance in determining overall customer satisfaction differ from transaction to transaction, and that the change in importance can be linked to the change in recognized variability in the attribute performance (Mittal et al., 2001). Further, it is also a difference between a newly acquired and a loyal customer of a company. Studies has shown that a newly acquired and a loyal customer placed different importance on the same attribute (Mittal and Katrichis, 2000). This suggests that companies have to divide how they treat customers, because newly acquired and loyal customers have different needs, and therefore it is crucial that they are handled differently (Mittal et al., 2001).

H1: High stickiness leads to customer satisfaction and customer loyalty.

Customer Loyalty

Customer loyalty is viewed together with customer satisfaction, and literature shows that there is a strong positive relationship between customer satisfaction and loyalty (Homburg and Giering, 2001; Dick and Basu, 1994). Customer satisfaction is seen as an immediate antecedent to customer loyalty, and will thereafter lead to increased shareholder value and asset efficiency (Homburg and Giering, 2001). Nonetheless, it is necessary to mention that loyalty does not prove that customers are satisfied. A customer might stay with a company for other reasons than being satisfied, they might for instance be loyal due to high switching barriers or lack of solid alternatives (Andreassen and Lindestad, 1998).

Companies think of satisfaction and loyalty as the one strategy to retain existing customers, and research has proven that barriers to exit are bound with regard to durability (Andreassen and Lindestad, 1998). Hirschman (1970) claims in his book “Exit, Voice and Loyalty” that companies will experience failure in customer satisfaction through customer's voice or exit. The voice is that a customer is expressing their dissatisfaction directly through the companies, and exit is that the customer stops buying the company's products, or using their services. It exists a likelihood of a customer renewing a service contract in the future, or perhaps the customer might change service provider, it is the likelihood from the customer of providing positive word-of-mouth, or the likelihood of providing voice (Andreassen and Lindestad, 1998).

Customers are demanding more than ever before, and this poses new challenges to service managers that aim to maintain loyal customers. Considering that it is a fine line in managing to keep customers satisfied and loyal, since a small mistake can destroy previous work. Dick and Basu (1994) discusses that customer loyalty involves strategic market planning and that it is an essential basis for developing a sustainable competitive advantage that can be accomplished through marketing efforts.

Dick and Basu (1994, p. 99) views customer loyalty as “the strength of the relationship between an individual’s relative attitude and repeat patronage.” This relationship is also seen as mediated by social norms and social factors. However,

they stress the fact that most marketing research on loyalty has used measures including proportion of purchase, purchase sequence, and probability of purchase. These behavioural measures do not explain the factors that are underlying repeat purchase, which means that they are insufficient to explain how and why brand loyalty is developed and/or modified (Dick and Basu, 1994). As described, there are differences in what causes customer loyalty, and studies indicates that there are other possible explanations for how service providers achieve customer loyalty, others than customer satisfaction.

Customer centricity

In the past, firms have tended to be more focused on being product-centric instead of customer-centric. As a result of this, firms have showed more interest in manufacturing costs and profits, than being customer oriented with focus on the product or service they provide (Shah et al., 2006). Levitt (1960) proposed that firms should not focus on selling products, but rather focus on fulfilling customer needs. Customer-centricity has been a known phenomenon for over 50 years, and the benefits from having a customer-centric perspective has been debated (Shah et al., 2006).

What has been evident over the last couple of years, is that having a customer-centric view has become an important role for firms to be profitable. As a consequence, a lot of firms have invested millions of dollars in Customer Relationship Management (CRM) to develop infrastructure and customer databases to meet customer's wants and needs (Shah et al., 2006). Even though firms have invested heavily in CRM systems, the firms do not really know how to use them to be profitable, and the investment is seen more as an expense than benefit. Literature suggests that the aim of shifting to a customer-centric paradigm is to create value for the customer and in the process create value for the firm (Shah et al., 2006).

According to Shah et al. (2006) "an ideal customer-centric organization implies having all functional activities integrated and aligned to deliver superior customer value. This is in contrast to a typical product-centric company that is organized

around functional silos and defined by product categories or product type.”

Research also distinguish and define what the differences are between a product-centric and a customer-centric view. Some of the most significant differences are; instead of being transaction oriented the firms are being customer oriented, instead of highlighting the product's features and advantages, the firm highlights the product's benefits in terms of meeting individual customer needs, and the management goes from looking at the product portfolio to look at the customer portfolio (Shah et al., 2006).

There are some issues and challenges connected to changing perspective from being product-centric to become customer-centric. Different incentives, backgrounds, tasks and time scales within the different departments in the firm, can affect the outcome of being customer-centric (Shah et al., 2006). An organizational culture is reflected by its vision and values, and changing these may affect employees in the firm to act in accordance with the new vision and value. Thus, Organizational cultural is a complex system with different levels that makes it resistant to change. Further, a common norm with customer centricity is that employees are customer advocates, which indicates that the employees shall act in the customer's interest at all times (Shah et al., 2006). It exists a gap in the literature, concerning how two companies can have different organizational cultures and still be able to have the same level of customer centricity.

To manage change in the organizational structure, theory suggests a horizontal organization because it is built around natural working processes and information is easily shared. This is beneficial in the way that important information from customers can easily be shared with the right people within the organisation, so that the outcome will be profitable for all parties involved (Shah et al., 2006). Theory also shows that firms that have a customer-centric view depends on metrics such as customer satisfaction, customer equity and customer loyalty to manage marketing initiatives and to be profitable. However, firms that do not manage to be customer-centric will get unsatisfied and non-loyal customers that will prefer competitors instead (Shah et al., 2006).

H2: Customer centricity leads to higher customer satisfaction.

Market Orientation

First in the 1990s, researchers started to recognize and operationalize the marketing concept “market orientation” (Kohli and Jaworski, 1990). Since then, hundreds of articles have been published on market orientation and its effect on business performance (Kumar et al., 2011). Narver and Slater (1990, p. 20) defined market orientation as “the business culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value of buyers, and, thus, continuous superior performance for the business.” Further, the literature propose that the main essence of market orientation is to deliver superior customer value (Narver and Slater, 1990; Kohli and Jaworski, 1990; Slater and Narver, 1995), which is based on knowledge collected from customer and competitor analyses. In addition, it is important for companies to evaluate other learning sources, such as suppliers, businesses in different industries, and others that acquire knowledge that can be of benefit to the company (Slater and Narver, 1995).

Every company’s overall goal is to expand market share and profitability, and scholars have described that market orientation is an important element of acquiring profitability, which includes that a company must be oriented to “finding needs and filling them” (Narver and Slater, 1990; Narver et al., 2004; Agarwal et al., 2003). It is important for a company to find and determine the right needs and wants from the target population, and further deliver satisfying services or products more effectively and efficiently than competitors (Agarwal et al., 2003; Kumar et al., 2011). Added, Agarwal et al. (2003) addresses that market orientation is also reported to provide psychological and social benefits to employees within the companies. This again, is an outcome of customer satisfaction, because it results in that employee's shares a feeling of worthwhile contribution, a higher level of job satisfaction and organisational commitments (Agarwal et al., 2003).

It is further emphasized that market orientation is a critical challenge for companies, and that they need to create a combination of culture and climate. This combination needs to expand organisational learning on how to create superior

value in a dynamic and turbulent market, seeing that if a company learn and adapt faster than competitors can be the only source of attaining sustainable competitive advantage (Slater and Narver, 1995; Jaworski and Kohli, 1993). This includes a good understanding of customer needs, competitive actions and market trends (Kumar et al., 2011). Also, a company with a market orientated approach provides a unifying focus for the efforts and projects of individuals and departments within the organisation, which will result in superior performance (Agarwal et al., 2003; Kumar et al., 2011). All of these elements are required for maintaining a sustainable long-term performance (Kumar et al., 2011).

H3: Market Orientation has a positive effect on customer satisfaction.

National Customer Satisfaction Barometer

The first Customer Satisfaction Barometer (CSB) was developed in Sweden to promote quality and make the different industries and companies market orientated and more competitive (Fornell, 1992). Johnson and Fornell (1991, pp. 267-268) based the framework for the index on two questions: “Can customer satisfaction be compared across industries?” and “Can customer satisfaction be compared across product categories and industries?” What was evident from the research was that non-price comparison, typically occurs at a level where the products and services are described by the same attributes (Johnson and Fornell, 1991). The purpose of the CSB was to rate the level of customer satisfaction within the different industries in addition to customer loyalty, as well as estimating the product and service performance on a national basis (Fornell, 1992).

Further research on CSB differentiates on the explanation of customer satisfaction across different industries. The findings from the research in 1993, showed that competitive product industries had more variety and higher satisfaction level than service industries, where there is less differentiating and more intermediate level of satisfaction (Johnson and Farnell, 1993).

The aim of the CSB is to increase competition and market share for the companies, therefore it is necessary with some clear guidelines for which attributes that affect the customer's satisfaction to create a good business strategy (Johnson and Farnell, 1993). In addition to differentiating between service and product industries, evolving theory on the CSB have looked at productivity and profitability between physical goods and services. To distinguish between goods and services helps firms understand how customer satisfaction and productivity relates to profitable performance (Anderson et al., 1997). Results from the research indicated that the associations between changes in customer satisfaction and changes in productivity are positive for goods, but negative for the service industries.

In Norway, the NCSB was developed in 1996 and was based on the American Customer Satisfaction Barometer from 1994 (Johnson et al., 2001). Later research on the NCSB looked at the evolution of national customer satisfaction index models, and some changes have been made. New variables were added, such as customer loyalty and profitability for the firm, and customer expectations was replaced with corporate image (Johnson et al., 2001).

Price and Service Quality

Theory has looked at how customer satisfaction increases willingness to pay, and if a consequence of satisfaction decreases the level of price sensitivity for the customer (Anderson, 1996). Anderson (1996, p. 265) defined price tolerance as "the maximum price increased satisfied customers are willing to pay or tolerate before switching." The price tolerance variable was used to examine the Swedish Customer Satisfaction Barometer (SCSB) data, and looked at the relationship between customer satisfaction and loyalty at the individual level. Results showed that price tolerance had an important role for the positive relationship between the variables. Other findings from the study also showed that greater competitiveness between firms was associated with higher level of customer satisfaction, and that long-term benefits should consider using a price tolerance measure along with loyalty and repurchase intention (Anderson, 1996).

A general assumption is that satisfied customers have a higher willingness to pay, but there is little theory on the relationship, and how it actually works. Though, in 2005, Homburg, Koschate and Hoyer did a research based on Anderson's (1996) work. The findings from this study also showed a positive relationship between customer satisfaction and willingness to pay. Customers adjust their willingness to pay after how firms change prices and service quality, and how the customer experience changes over time (Homburg et al., 2005). The study suggests that satisfaction levels could influence the pricing strategy of a firm, and that firms could take a higher price if they have a high level of customer satisfaction (Homburg et al., 2005).

Taylor and Baker (1994) did also study the relationship between service quality and customer satisfaction on customer's purchase intention. The results from the research indicated that satisfaction appears to moderate service quality and purchase intention in the service industry. However, the results were not significant by the fact that a full understanding on customers purchase intention are required. There are also other underlying variables that affect customers purchase intention than customer satisfaction and service quality, as individual dependent variables (Taylor and Baker, 1994).

The airline industry is a very competitive market, and it has been an increase in Low Cost Carriers (LCCs) in the last couple of years. The difference between LCCs and Full Service Carriers (FSCs) is that you pay for full service with FSCs airlines, which results in higher fares. According to a study from Chang and Yeh (2002), an airline's competitive advantage is the perceived service quality, although low fares is the primary competitive weapon. It is easy to copy prices of competitors and as a result of price competition, the service quality may decline and affect the perceived passenger experience (Chang and Yeh, 2002). Tsaur et al. (2002) have described service quality within the airline industry as; "service quality can be regarded as a composite of various attributes. It not only consists of tangible attributes, but also intangible/subjective attributes such as safety, comfort, which are difficult to measure accurately."

Research has shown that airplane passengers consider service quality and price when choosing airlines (Kim and Lee, 2011). Airlines with a low cost strategy wants to provide high levels of service quality to increase customer satisfaction, and to create a good brand name even though they are LCCs. Jou et al. (2008) reports that airline passengers strongly respond to decrease in prices, increased safety, comprehensiveness and increase in convenience. They further endorse that for airline companies to attract passengers, they should focus on safety of service quality, make convenient solutions for the passengers to purchase tickets, baggage handling, flight times and other service activities (Jou et al., 2008).

H4: Price tolerance has an effect on Customer Satisfaction.

H5a: Service Quality influence price.

H5b: Price influence service quality.

Complaint handling

Complaining was ordinary only a consequence of low satisfaction, and not an opportunity to increase satisfaction, but nonetheless, researchers have recognized the importance and potential the complaint handling mechanism has toward increasing customer satisfaction (Johnson et al., 2001). Another objective of customer complaint handling is to reverse dissatisfied customers into satisfied and loyal customers (Fornell, 1992). However, many companies do not handle complaints effectively, and it has been noted that approximately half of the complaining customers are dissatisfied with complaint handling (Homburg and fürst, 2005). Regardless, Blodgett et al. (1995) informs that it is crucial that retailers and service providers primarily communicate that customer satisfaction is guaranteed, because companies cannot solve any problems before customers seeks redress.

Gustafsson (2009) implies that complaint handling is a critical “moment of truth” when it comes to maintain customer relationships. When a company undertake complaint handling, and it is successfully from the customer’s viewpoint, it

creates a sense of trust and increases the commitment to the relationship with the service provider (Gustafsson, 2009). Complaint behavior is essential for both service scholars and managers to understand, because of the impact it has on customer's perceptions of the service experience. Acquiring knowledge about it, provides the service provider valuable insight into how to handle service problems, improve the service delivery and strategic planning all together (Gustafsson, 2009). Nonetheless, it is a difficult manner to always handle this correctly, and it is many aspects on what the best approach to handle customer complaints is.

In the service sector, consistent quality levels are usually more demanding to achieve, because customers use services over again, and it most often involves human resources of the company that can go wrong because of the human elements. This leads to customer dissatisfaction and customer complaints (Gustafsson, 2009). To turn this around, it is vital to be aware and have a well maintained process of handling complaints, including training and a quick return time, because this will be satisfactory to the customer (Van Der Wiele et al., 2002; Chen and Chang, 2005). Blodgett et al. (1995) reports that companies that establish a reputation for persistently redressing customer complaints have a chance to establish customer loyalty, and also increase market share over time. On the other hand, companies that receives a reputation for not managing to redress customer complaints may lose many customers.

Homburg and Fürst (2005) studies two approaches that are relevant for complaint handling, which is also influencing employee behaviour: The Mechanistic and the Organic approach. The mechanistic approach is described as “standard operating procedures”, where companies can make guidelines for the employees for specific activities. While the organic approach is concerned with influencing behaviour of the employees by focusing on training, motivation, and providing them with shared values and norms of the organisation. What they found out was that further research should focus more on the mechanistic approach of complaint management, which is interesting because usually we think of HRM (organic approach) when considering employee behaviour (Homburg and Fürst, 2005).

Added, Homburg and Fürst (2005) and other researchers have found out that complaint satisfaction has a strong effect on customer loyalty, but the impact of overall customer satisfaction on customer loyalty is not significant. If the company's complaint handling is purposeful and practical, the relationship between voice and loyalty is positive and will result in loyal customers. On the other hand, if the relationship is negative and complaint handling is not managed successfully, the company gets more resistant to customer grievances and complaints, which results in losing customers to competitors (Fornell, 1992). Hence, after a complaint, loyalty depends really on the satisfaction of the complaint handling, and not as much on satisfaction over time. Homburg and Fürst (2005) revealed that immediately after a complaint, customers' perceptions are mostly influenced by how the complaint is handled, which means that complaint satisfaction is actually the main driver of loyalty at this point.

Nevertheless, there are researchers that have conflicting assessments about how complaint managing are affecting satisfaction and loyalty. Johnson et al. (2001) indicates that the complaint management systems are not especially effective at creating satisfaction or loyalty. This is consistent with both Fornell et al.'s (1996) research that propose that complaint management is only helpful in neutralizing complaints, and with Smith et al. (1999) who implies that service recovery is ineffective for the majority of customers in a restaurant and hotel setting.

H6: Complaint satisfaction has a positive effect on customer satisfaction and customer loyalty.

Innovation

In today's business environment, it is required that companies interact with their customers using technology to provide services instantaneously across international borders (Kandampully, 2002). As mentioned earlier, customers are demanding more than ever before, and as there are less interaction with customers face-to-face, it is crucial for companies to have good systems and processes so that everything goes as planned and make the service satisfactory for the customer. Because of the limited face-to-face interaction in many service

industries, IT developments are innovations that redefines and redirect business relationships and processes through new channels. The essence with innovation lies in satisfying the customer and making it more efficient and convenient.

Chen et al. (2009) looks at service innovation and convey that service providers deliver services and products to their customers in similar ways, because the core of service delivery is to transform inputs to outputs. In this manner, they argue that service delivery innovation involves an entire organisation in the process and their findings indicate that innovation orientation and IT capability are fundamental to drive service delivery innovation and that service delivery innovation results in increased financial performance (Chen et al., 2009).

Further, innovation has been discussed and described by many researcher, but in general it has been defined as “the development and/or use of new ideas or behaviours” (Damanpour et al., 2009, p. 652). An innovation can be viewed new to one adopter, to an organisation, to an industry or to a whole organisational population (Damanpour et al., 2009). As follows, Oke (2007, p. 566) describes service innovation as “new developments in activities undertaken to deliver core service products for various reasons.” Whereas a new development can for instance be to make something more attractive to the customer. Service innovation are described by many researchers and there is a common pattern that follows, but there are also many different views on the core issue of service innovation, and there is not enough research on the topic yet.

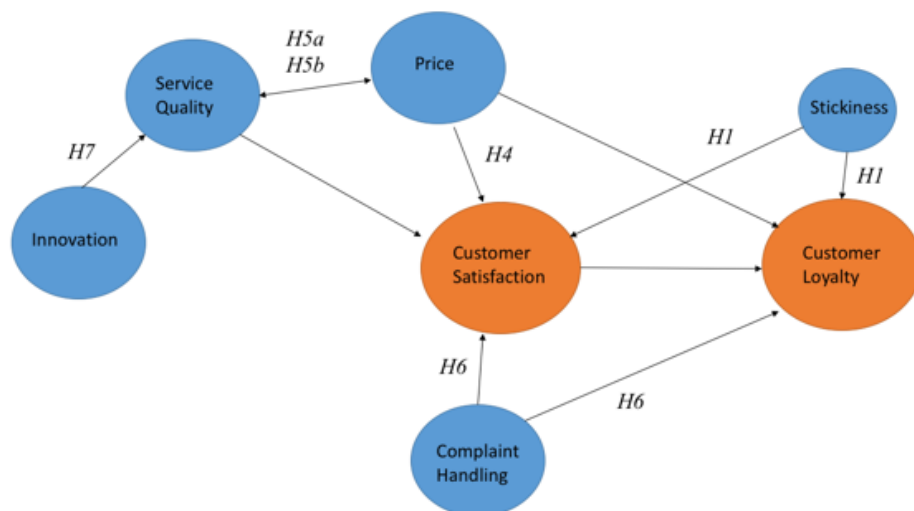
What is common is that innovation in the service sector have resulted in a vast level of growth and dynamism over the years (Oke, 2007). The adoption of innovation is a mechanism to enhance organisational performance goals, peculiarly with the fierce competition, change in market, scarce resources and customers demand for higher quality (Damanpour et al., 2009). Seen from this, innovation is the key to survival to most companies and especially in the service sector (Agarwal et al., 2003).

H7: Innovation leads to higher Service Quality.

Conceptual Model

The conceptual model proposed here consists of five independent variables; 'Price', 'Service Quality', 'Innovation', 'Stickiness', and 'Complaint Handling'. The effect of these different variables will be tested on the dependent variables 'Customer Satisfaction' and 'Customer Loyalty'. Underlying factors that we think will affect the variables in the model, are 'Marketing Orientation', and 'Customer Centricity'. We expect innovation to affect how customers and employees perceive the service quality on an internal and external level.

In addition, we expect price to affect the service quality, and vice versa. We believe that both service quality and price are expected to affect customer satisfaction directly, but we also think that price will have a direct effect on customer loyalty as well. The two last variables, complaint handling and stickiness are expected to have direct effect on both customer satisfaction and loyalty. We will also emphasize here, that changes with the model may occur, because this is still a work in progress.



Methodology

First of all, we will use a mixed design to dig deeper into which factors that affect customer satisfaction over time on a company level. There have been done a lot of observations over the years in terms of customer satisfaction over time. Therefore, we will use secondary data to build our research upon, and the provided data will come from the NCSB with weighted average on satisfaction and retention throughout the years. In addition to the NCSB, we will also evaluate results and data from other providers that measure satisfaction.

We are going to do a desk analysis on the chosen companies, where we will gather and analyse information about the companies and the industry they are operating in. It is of importance to be critical to secondary data, in terms of reliability and validity of the collected data. This can be helpful for our research, as it can give us extensive information that have an impact on how the companies react to different factors in the market.

Since we are looking into satisfaction on a company level, and want to find out what happens inside the organisation. In this manner, we intend do a quantitative method. This will include making an interview guide, to use when doing in-depth interviews with someone within the chosen companies. Added, we also intend to use a questionnaire, where we will check how the employees within the chosen firms perceive customer satisfaction and loyalty. Further, with this information we have to do a content analysis.

What we find interesting with Norwegian and SAS, is that results from the NCSB shows that Norwegian has held a steady progression with regard to customer satisfaction and loyalty throughout the years, while SAS has experienced more ups and downs. SAS and Norwegian both compete in the Scandinavian marked, and they differentiate from each other by having different corporate strategies. Norwegian is positioned as a LCC, and is one of Scandinavia's largest LCC's today, while SAS is positioned somewhere in between FSC and LCC. SAS has changed strategy several times over the last couple of years, which may have been

the reason for their ups and downs compared to Norwegian who has held their low fare strategy.

Conclusion

With our research, we expect to get an answer to our research question and hypotheses stated in the literature review. We have looked into factors connected to the NCSB, and evaluated what we think is of interest with special regard to the airline industry. We expect that the independent variables: stickiness, complaint handling, innovation, price and service quality to will have a significant effect on the dependent variables customer satisfaction and customer loyalty. In correlation to this, we also expect that our hypotheses will be significant. The effects of the variables are shown and described in the conceptual model above.

SAS and Norwegian compete in a complex and competitive industry, and as a result of that, we expect that factors affecting customer satisfaction and loyalty will change over time. We believe that SAS and Norwegian are handling the customer satisfaction and loyalty issues differently from within, and therefore we expect to see differences based on business strategy and organizational behaviour. However, we are unsure about how big the differences will be between the two companies, as they are not that far apart in satisfaction measurements.

Theoretical contribution

We desire to fill a gap in the literature, concerning customer satisfaction and customer loyalty theory. It has been little research on this specific aspect before, and therefore we hope to contribute with new findings in this area. Even though the gap we might fill will be small, it could be a start to find out what happens inside an organisation over time, and which factors that have an impact on customer satisfaction and loyalty, starting from within the organisation.

Managerial contribution

We aim to find out what happens inside an organisation, and what different factors that have an effect on customer's satisfaction and loyalty. Thus, our research should be of importance to marketing managers, because those attributes

that have an effect on customer satisfaction and loyalty are contributing to make an organisation profitable and successful. Managers can hopefully learn from this, and evaluate if they are heading in the right direction in their practice of marketing, or if they should consider changing structure to improve. Since we will study the airline sector, the factors might be solely relevant for this industry, but we hope to also find generalizable factors that can have an importance for other service sectors as well.

Limitations

Some limitations with our study is that we have limited the number of factors that could have been relevant for the results. The reason why we had to narrow the study down was because it would have been too complex and time consuming to finish our master thesis in time. Other limitations with the study might be that we can experience biased responses from respondents, when having a quantitative design and questionnaires on a company level.

References

- Agarwal, S., Erramilli, M. K., & Dev, C. S. (2003). Market orientation and performance in service firms: Role of innovation. *Journal of Services Marketing*, 17(1), 68-82.
- Anderson, E. W. (1996). Customer satisfaction and price tolerance. *Marketing letters*, 7(3), 265-274.
- Anderson, E. W., Fornell, C., & Lehmann, D. R. (1994). Customer satisfaction, market share, and profitability: Findings from Sweden. *The Journal of Marketing*, 53-66.
- Anderson, E. W., Fornell, C., & Rust, R. T. (1997). Customer satisfaction, productivity, and profitability: Differences between goods and services. *Marketing science*, 16(2), 129-145.
- Andreassen, T. W., & Lindestad, B. (1998). Customer loyalty and complex services: The impact of corporate image on quality, customer satisfaction and loyalty for customers with varying degrees of service expertise. *International Journal of Service Industry Management*, 9(1), 7-23.
- Blodgett, J. G., Wakefield, K. L., & Barnes, J. H. (1995). The effects on customer service on consumer complaining behavior. *Journal of Services Marketing*, 9(4), 31-42.
- Smith, A. K., Bolton, R. N., & Wagner, J. (1999). A model of customer satisfaction with service encounters involving failure and recovery. *Journal of marketing research*, 36(3), 356-372.
- Chang, Y. H., & Yeh, C. H. (2002). A survey analysis of service quality for domestic airlines. *European journal of operational research*, 139(1), 166-177.

Chen, J. S., Tsou, H. T., & Huang, A. Y. H. (2009). Service delivery innovation antecedents and impact on firm performance. *Journal of Service Research*, 12(1), 36-55.

Damanpour, F., Walker, R. M., & Avellaneda, C. N. (2009). Combinative effects of innovation types and organizational performance: a longitudinal study of service organizations. *Journal of Management Studies*, 46(4), 650-675.

Dick, A. S., & Basu, K. (1994). Customer loyalty: toward an integrated conceptual framework. *Journal of the Academy of Marketing Science*, 22(2), 99-113.

Fornell, C. (1992). A national customer satisfaction barometer: The Swedish experience. *the Journal of Marketing*, 6-21.

Fornell, C., Johnson, M. D., Anderson, E. W., Cha, J., & Bryant, B. E. (1996). The American customer satisfaction index: Nature, purpose, and findings. *The Journal of Marketing*, 60(4), 7-18.

Gustafsson, A. (2009). Customer satisfaction with service recovery. *Journal of Business Research*, 62(11), 1220-1222.

Hirschmann, A. O. (1970). *Exit, Voice, and Loyalty – Responses to Decline in firms, Organizations, and states*. Cambridge, Massachusetts; London, England: Harvard University Press.

Homburg, C., & Giering, A. (2001). Personal characteristics as moderators of the relationship between customer satisfaction and loyalty – an empirical analysis. *Psychology & Marketing*, 18(1), 43-66.

Homburg, C., & Fürst, A. (2005). How organizational complaint handling drives customer loyalty: an analysis of the mechanistic and the organic approach. *Journal of Marketing*, 69(3), 95-114.

Homburg, C., Koschate, N., & Hoyer, W. D. (2005). Do satisfied customers really pay more? A study of the relationship between customer satisfaction and willingness to pay. *Journal of Marketing*, 69(2), 84-96.

Jaworski, B. J., & Kohli, A. K. (1993). Market orientation: antecedents and consequences. *The Journal of marketing*, 57(3), 53-70.

Johnson, M. D., & Fornell, C. (1991). A framework for comparing customer satisfaction across individuals and product categories. *Journal of economic psychology*, 12(2), 267-286.

Johnson, M. D., Gustafsson, A., Andreassen, T. W., Lervik, L., & Cha, J. (2001). The evolution and future of national customer satisfaction index models. *Journal of economic Psychology*, 22(2), 217-245.

Jou, R. C., Lam, S. H., Hensher, D. A., Chen, C. C., & Kuo, C. W. (2008). The effect of service quality and price on international airline competition. *Transportation Research Part E: Logistics and Transportation Review*, 44(4), 580-592.

Kandampully, J. (2002). Innovation as the core competency of a service organisation: the role of technology, knowledge and networks. *European Journal of Innovation Management*, 5(1), 18-26.

Kim, Y. K., & Lee, H. R. (2011). Customer satisfaction using low cost carriers. *Tourism Management*, 32(2), 235-243.

Kohli, A. K., & Jaworski, B. J. (1990). Market orientation: The construct, research propositions, and managerial implications. *The Journal of Marketing*, 54(2), 1-18.

Kumar, V., Jones, E., Venkatesan, R., & Leone, R. P. (2011). Is market orientation a source of sustainable competitive advantage or simply the cost of competing. *American Marketing Association*, 75, 16-30.

Lervik-Olsen, Line, Rutger D. van Oest and Peter C. Verhoef (work in progress)
When is Customer Satisfaction Sticky and When is it Flexible? A Longitudinal
Analysis.

Levitt, T. (1960). Marketing myopia. *Harvard business review*, 38(4), 24-47.

Mittal, V., & Katrichis, J. M. (2000). Distinctions between new and loyal
customers. *Marketing Research*, 12(1), 26-32.

Mittal, V., Katrichis, J. M., & Kumar, P. (2001). Attribute performance and
customer satisfaction over time: evidence from two field studies. *Journal of
Services Marketing*, 15(5), 343-356. doi.org/10.1108/EUM0000000005655

Mittal, V., Kumar, P., & Tsiros, M. (1999). Attribute-level performance,
satisfaction and behavioral intentions over time: a consumption-system approach.
Journal of Marketing, 63, 88-101.

Narver, J. C., & Slater, S. F. (1990). The effect of a market orientation on
business profitability. *The Journal of marketing*, 54(4), 20-35.

Narver, J. C., Slater, S. F., & MacLachlan, D. L. (2004). Responsive and
proactive market orientation and new-product success. *Journal of product
innovation management*, 21(5), 334-347.

Oke, A. (2007). Innovation types and innovation management practices in service
companies. *International Journal of Operations & Production Management*,
27(6), 564-587.

SAS. (2016) Annual Report 2014/2015. Sourced from:
<http://www.sasgroup.net/en/sas-annual-report-20142015/>

Shah, D., Rust, R. T., Parasuraman, A., Staelin, R., & Day, G. S. (2006). The path to customer centricity. *Journal of service research*, 9(2), 113-124.

Slater, S. F., & Narver, J. C. (1995). Market orientation and the learning organization. *The Journal of marketing*, 59(3), 63-74.

Taylor, S. A., & Baker, T. L. (1994). An assessment of the relationship between service quality and customer satisfaction in the formation of consumers' purchase intentions. *Journal of retailing*, 70(2), 163-178.

Tsaur, S. H., Chang, T. Y., & Yen, C. H. (2002). The evaluation of airline service quality by fuzzy MCDM. *Tourism management*, 23(2), 107-115.

Van Der Wiele, T., Boselie, P., & Hesselink, M. (2002). Empirical evidence for the relationship between customer satisfaction and business performance. *Managing Service Quality: An International Journal*, 12(3), 184-193.