

CREATING CORPORATE ADVANTAGES OF AIRLINE COMPANIES THROUGH MARKET-DRIVEN STRATEGY

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ABSTRACT

The environment of the airline industry in Indonesia is very dynamic and the Indonesia domestic flight market has a very high potential so that the competition of aviation business in Indonesia is increasingly open and tight. Unfortunately, Indonesia national airline companies have not had an optimal level of excellence, such as the aspects of operational performance, OTP, flight safety and security performance, and financial performance. This research aims to analyze the creation the corporate advantage of the airlines in Indonesia through market-driven strategies that are appropriate and effective. This research is an explanatory survey and is based on the nature of cross-sectional time coverage in the year 2016. The research uses a descriptive and verivcative method with data analysis using Partial Least Square (PLS)-based Structural Equation Modelling (SEM). The unit of analysis in this research is the national airline companies in Indonesia while the unit of observation is the top management of Indonesia's domestic airlines. The test results show that the creation of the excellence of Indonesia domestic airlines can be done through the implementation of market-driven strategies in appropriate and effective ways. In this research, market-driven strategy has positive and significant effects on the advantage of Indonesia domestic airline companies.

Key words: Market-Driven Strategies, corporate advantage, and Indonesia aviation industry.

INTRODUCTION

Indonesia national airline companies are now engaged in a very tight and intense competition. It is impossible for the airlines to expect supports from the government subsidies for their growth and development. Moreover, the *Open Sky Policy* has been implemented since 2015 in the frame of ASEAN single market (Manurung 2010).

Behind the high market potential and attractiveness, Indonesia domestic airlines are generally still not able to show their best quality of operation. For example, flight delay still happens frequently; the degree of service has not been optimal yet; flight safety and security have not been optimal yet; and the income (*yield*) still fluctuates. Whereas the average national air traffic is growing significantly, especially in term of the increasing number of passengers transported.

The competitive advantage of Indonesia national airlines is relatively less optimal compared to the airlines from other countries. For example, in the aspect of *punctuality*, its national average in 2015 and 2016 was still under 80 percents (Ministry of Transportation 2017, INACA 2015). The Indonesia national airlines were not included in the list of Top 20 Airlines by OTP 2016 in which Hawaiian Airlines occupied the highest rank with the OTP achievement as many as 89.87%. The lowest OTP was occupied by Jet2.com with the score 82.64%. Whereas Japan Airlines and Singapore Airline occupied the 5th and 10th ranks with OTP achievement 86.74% and 85.19% respectively (OAG Punctuality League 2017).

Likewise, for the category of LCC there was no LCC airline from Indonesia in the Top 20 Airlines by OTP achievement. For the category of LCC the highest rank was occupied by Monarch Airlines (85.67%) and the lowest by Air Asia (73.52%). Thai Air Asia occupied the 9th rank with OTP achievement as many as 78.60%. For Asia-Pacific category, none of Indonesia national airlines were included in the Top 10 Asia Pacific Airlines by OTP, in which the highest rank was occupied by Qantas Airways (87.56%) followed by Japan Airline and Singapore Airline respectively in the second and third positions.

From the aspect of *economic profit*, none of Indonesia national airlines was included either in the list of *Top 10 Economic Profit Generators* by Dollar 2011-2015 or in *Top 10 Economic Profit Generators* by Percentage Margin Over Their 5-Year Revenue 2011-2015 in the version of LEK Aviation Insights Review 2016.

In the national scope, the flight safety was still relatively poor, which was proven with the issuance of flight ban by the authority of European Union aviation on the Indonesian airline companies which would fly to European countries in the period of 2007 to 2015 due to the flight accidents which frequently happened during 2004 to 2007. After the accidents, Federal Aviation Administration (FAA) published the rating of Indonesia national airlines in the second rank, meaning it was *unsafe*. Indonesia regained the first rating from FAA in the end of 2015 after Indonesia had been considered capable enough to show improvements in the aspects of flight safety and security.

None of Indonesian airlines is included in the Top 20 World Most-Secured Airlines in the period of 2016-2017 according to both Airlines Rating.com version and Aviation-Safety.net.

AirlineRatings.com rates those 20 world most-secured airlines based on how the airlines are always in the forefront position in the innovation of passenger safety, operational excellence, and aircraft launching which has more advanced technologies.

In general, the safety flight quality of Indonesian airlines during 2015 in the level of ASEAN was in the lowest rank according to ICAO through the *Universal Safety Oversight Audit Program (USOAP)*.

Unfortunately, with all the huge potential of domestic market and abundant resources, the advantages expected to be resulted from Indonesian airlines have not materialized. It means the advantages of Indonesia domestic airlines have not been optimal yet, mainly related to the product quality which is reflected from the service quality in general, on time performance, as well as few innovations which have been made by Indonesian airlines, fluctuating business growth, and the poor image of airline companies in the eyes of public. These indicate that the strategies being implemented are still insufficient. Whereas the formulation of market-driven strategies in the appropriate and effective ways should be able to create the corporate advantages in the optimal degree.

According to Cravens and Piercy 2009, Collis and Montgomery 2005, the logic underlying the market-driven strategy is that market and the consumers constituting it should become the initial point of business strategy. The market strategy driven by the perspective of all companies mandates a more effective integration of activities and processes which influence customer value. The development of market-driven strategy is not a short term effort. A number of big efforts are needed to build the organizational culture and processes driven by market. In addition, the method for measuring the progress exceeds the short term cost efficiency and profit increase so that it can disrupt the achievement of strategical purposes and the creation of superior customer value.

Market-driven strategy is the strategy with an orientation to market consisting of *company* (C1), *customer* (C2), and *competitor* (C3) which tries to provide superior value for customers in order to obtain the market position advantage, because the main orientation is to improve the access to market. The characteristics of *market-driven strategy* with a market orientation include focus on customers, competitor intelligence, cross-functional coordination, and performance implications.

According to Cravens and Piercy (2006), the process of marketing strategy in designing *market-driven strategies* is a step for analyzing the strategic situation of marketing strategy to identify market opportunities, to identify market segments, to evaluate the competition, and to assess the organization's strengths and weaknesses. Information related to market sensing plays a key role in designing the marketing strategy, which comprises target market and positioning, market relations, as well as new product development and introduction.

Furthermore, concerning the variable of corporate advantage, Collis and Montgomery (2005), state that the corporate vision, objectives, and target which are clearly formulated and followed by resources, business, and organization as the foundation of a powerful *corporate strategy* will result in *corporate advantage* which will strengthen the existence of multibusiness entity.

An effective *corporate strategy* is resulted from the harmonious combination of the five elements: vision, objectives-target, resources, business, and organization. The five elements collaborate as a system to create values through multimarket activities. This will result in *corporate advantages*.

RESEARCH METHOD

This research focuses on the strategic management which specifically studies market-driven strategy factor and its effect on creating the advantages of airline companies in Indonesia. This study is descriptive and verificative with the research method using *descriptive survey* and *explanatory survey*. The technique of data analysis uses PLS-based SEM. The analysis unit in this study is the national airlines in Indonesia, whereas the observation unit is the top management of Indonesian domestic airlines.

RESULTS AND DISCUSSION

The Market-Based Strategy of Airlines in Indonesia

The market-driven strategy of Indonesian national airlines is described by four dimensions comprising 11 indicators. The following is the recapitulated calculation of the responses given by airline managements against the variable of market-driven strategy.

Table 1 Responses from Airline Managements against Market-Driven Strategy

No	Dimension	Total Score	% Score	Category
1	Focus on Customers	388	86,2%	Very Good
2	Competitor's Intelligence	392	87,1%	Very Good
3	Cross-Functional Coordination	252	84,0%	Good
4	Performance Implications	400	88,9%	Very Good
Market-Driven Strategy (X)		1,432	86,8%	Very Good

Source: Primary Data processed, 2017.

From the calculation of response scores given by the airline managements presented in Tabel 1 it is known that the assessment made by airline managements against market-driven strategy is categorized *Very Good* with the total score 1,432 or 86.8% of the ideal score 1,650. From the four indicators of market-driven strategy, the highest score is on *Performance Implications* (88.9%) and the lowest score is on *Cross-Functional Coordination* (84.0%) but it is still in the category of *Good*.

The Advantage of Indonesian Airlines

The advantage of Indonesian airlines is described by five dimensions comprising 18 indicators. The following is the recapitulated calculation of the responses given by the airline managements against the variable of Corporate Advantage.

Table 2 Responses from Airline Managements against Corporate Advantage

No	Dimension	Total Score	% Score	Category
1	Price	333	74.0%	Good
2	Product Quality	1,034	86.2%	Very Good
3	Innovation	369	82.0%	Good
4	Business Growth	247	82.3%	Good
5	Company Image	264	88.0%	Very Good
Corporate Advantage (Y)		2,247	83.2%	Good

Source: Primary Data processed, 2017

From the score calculation of responses from airline managements presented in Tabel 2 it is known that the assessment made by airline managements against Corporate Advantage is categorized *Good* with the total score 2,247 or 83,2% of the ideal score 2,700. From the five indicators of Corporate Advantage, the highest score is on *Company Image* with the score 264 (88.0%) and the lowest score is on *Price* with the score 333 (74.0%) but it is still in the category of *Good*.

Based on the calculation of effect size, its influence on Corporate Advantage is 0.799, resulted from the value of f^2 for the variable of market-driven strategy as follows:

$$f^2 = \frac{R^2_{included} - R^2_{excluded}}{1 - R^2_{included}} = \frac{0,861 - 0,816}{1 - 0,861} = 0,324$$

The value of f^2 as many as 0.324 is bigger than 0.15, indicating that market-driven strategy has a moderate influence on Corporate Advantage.

Furthermore, the value of Q-square is bigger than 0 (zero), indicating that the model has a value of *predictive relevance*. The value of R-square of the endogenous variable in this study can be seen in the following calculation.

The value of *predictive-relevance* is resulted from the formula:

$$Q^2 = 1 - (1 - R1) (1 - Rp)$$

$$Q^2 = 1 - (1 - 0.703) (1 - 0.861)$$

$$Q^2 = 1 - 0.041$$

$$Q^2 = 0.958$$

The calculation above shows the value of *predictive-relevance* as many as 0.958 (> 0). Thus, the model has a value of *predictive relevance*.

The Influence of Market-Driven Strategy on the Corporate Advantage of Aviation Industry in Indonesia

The hypothetical test on the influence of Market-Driven Strategy on the Corporate Advantage using PLS 2.0 can be depicted as follows:

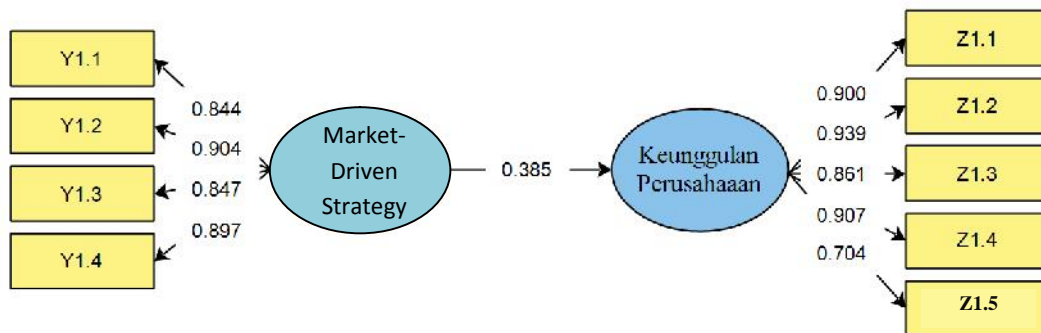


Figure 1 Hypothetical Path Diagram

The structural model for the abovementioned diagram is as follows:

$$z_2 = 0.385 x_1 + z_3$$

Table 3 Results of Partial Hypothetical Test

Hypothesis	α	SE	T statistic	R ²	Remarks
Market-driven strategy→Corporate Advantage	0.385	0.190	2.023*	0.148	Significant

* Significant at $\alpha=0.05$

Source: Primary Data processed, 2016

Based on the results of data processing presented in the table of estimated Path Coefficient and Statistical Test, it can be seen that the path coefficient of the Marketing-Driven Strategy variable toward Corporate Advantage is 0.385 having positive direction. It means, the higher the Market-Driven Strategy the higher Corporate Advantage will be. The hypothesis can be accepted, which is indicated by the value of t statistic 2.023 > 1.96 (significance level 5%) meaning that the result of the test is significant. It means, market-driven strategy significantly influences the corporate advantage of aviation industry in Indonesia.

The landscape of national aviation industry has experienced dramatic changes after the issuance of the policy on aviation deregulation in 2000 which caused the emergence of many operators (multi-operators), triggered a very tight open competition, and the tariff war strategy implemented by the business players in the national aviation industry was inevitable. As a result, in addition to poor quality of flight services, not few airlines which stopped their operation or went to bankruptcy. Every year, in average one to two airlines went to bankruptcy (Majid, 2017). Likewise, the next aviation landscape in 2010 experienced fairly drastical changes triggered by the Act No. 1/2009 on Aviation, substituting the Act No. 15/1992. In the last five years, it was not easy for business players and investors to establish an airline company due to very strict requirements, especially from the aspect of capital which, according to Manurung (2010), needed around three trillion Rupiah to establish an airline company.

In such a condition aviation business players in Indonesia were forced to be more careful and serious in running their aviation business. The previous experiences, especially in the period of 2000-2010, may become examples and footholds to strengthen the internal company condition while implementing efficiencies and improvements related to the aspects of flight safety and security which are *mandatory* from the safety and technical aspects.

Therefore, the market-driven strategy which is going to be implemented by the airline companies today is relatively different from the market-driven strategy in the last time. It is stated by Rufaidah (2012) that corporate strategy will generally determine the orientation of a company to growth and competitive strategy in the industry or market it is going to penetrate. Corporate strategy provides *strategic platform* or organizational capability to overcome the business problems in various environments using a set of strategic capabilities. Corporate strategy actualizes three common orientations, namely *growth*, *stability (delay)*, and *retrenchment*. After the company chooses the common orientation for its strategic direction, it can choose some specific corporate strategies in order to be more focused on implementing the strategies so that it achieves the company's objectives.

The corporate strategy with its focus on competitive efforts for an airline company, as stated by Dwi Kartini Yahya (Susanto 2014), will surely be adjusted with the concept or model of aviation business to be chosen, whether it will implement *Full Service Carrier*, *Low Cost Carrier*, or *Hybrid LCC* as mentioned by Thomas and Catlin (2014).

Considering that condition and its relation to the market-driven strategy which is implemented based on four dimensions namely *customer focus*, *competitor intelligence*, *cross-functional coordination*, and *performance implications*, the national airlines in Indonesia being surveyed have generally implemented those dimensions very well, including its influence on corporate advantage. The corporate advantage or competitive advantage of the national airlines in Indonesia is the reflection of the success or effectiveness of market-driven strategy which so far has been implemented.

From the five dimensions of corporate advantage namely price, product quality, innovation, business growth, and company image, two dimensions will be directly experienced by the consumers: price and product quality. In general, competitive and affordable price is still attractive to domestic consumers to decide a purchase or to choose a flight, especially for the scheduled commercial flight market. From some interviews made with the top management of national airline companies in Indonesia and strengthened by *in-depth interviews* with the key informant Tengku Burhanuddin, Secretary General of INACA on 1 July 2016 and 1 March 2017, Indra Setiawan, former Pesident Director of Garuda Indonesia, and Hasudungan Pandiangan, Commercial Director of White Sky Aviation on 1 and 3 March 2017, it is known that the affordable ticket price is a strong attraction for Indonesian people in general. However, it should be acknowledged that there are some aspects of product quality which have not been satisfying, especially related to the punctuality of flight schedule which in the national average is still under the target.

CONCLUSION

Market-driven strategy positively and significantly influences the corporate advantage of aviation industry in Indonesia. Excellent companies can be created by the formulation and implementation of market-driven strategy which is made in comprehensive, appropriate, and

effective ways. *Corporate advantage* or *aviation company's excellence* is the most important initial step toward *competitive advantage* resulted from quality products or lower costs compared to the competitors. The advantage of airline companies can be created through market-driven strategy which is implemented appropriately and effectively.

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