THE INFLUENCE OF AVIATION INDUSTRIAL ENVIRONMENT AND MARKET ORIENTATION ON COMPETITIVE STRATEGY AND ITS EFFECTS ON AVIATION BUSINESS PERFORMANCE (STUDY ON AVIATION INDUSTRY IN INDONESIA)

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Abstract

This study aims to determine and analyze the factors related to the competitive strategy implemented by airline companies in Indonesia in order to improve their business performance. The benefit of this study is to become a reference for the management of airline companies in maintaining their business performance. The method used here is using focus group discussion (FGD) to find the competitive factors in the aviation industry in Indonesia and applied in the form of questionnaires. The questionnaires are distributed to the stakeholders whose business is related to aviation industry. From the data of respondents, by using the data analysis technique of Important Performance Analysis, some gaps are found between the expectation of some parties and what really happens in the field, so that this must be paid attention by aviation business players in Indonesia.

Keywords: **Competitive strategy; Business performance; Important Performance Analysis; Stakeholders**

INTRODUCTION

The deregulation on aviation has brought forward the national air transport and has encouraged more roles from national air transport system. The role of air transport is as a means of supporting the national economic growth as well as becoming a business providing job opportunities both directly and indirectly, and subsequently giving direct contribution to GNP. The increasing capacity of air transport, as the effect of the national aviation deregulation followed by the increasing load capacity of airline companies, has boosted up a significant growth of air tansport passengers. Some airlines grow fast and even become market leaders. In term of market share growth, the first rank is occupied by Lion Air (4.38%), followed by Sriwijaya (1.01%), Batavia (0.21%), Merpati (-0.21%) dan Garuda (-0.42%). Whereas in term of passenger growth, Lion Air occopies the first rank with 31%, followed by Sriwijaya (22%), Batavia (15%), Garuda (13%) and Merpati (11%). In the other hand, there is a phenomenon in which airline companies show bad performance and even some airline companies go bankrupt although their number of passengers increases from year to year, indicating that the potential (opportunity) of air transport business is great. Likewise, the contribution of air transport is still relatively little but providing big opportunities. Unfortunately, the fact is that domestic airline companies have bad performance and go bankrupt.

From various research papers concerning problem identification, it is seen that there are many variables and dimensions explaining business performance. It is due to various causes affecting the industrial development. Researches from 2010 to 2013 are mostly academic researches due to the impact of economic crisis of 2007-2008. Nevertheless, of all these researches, several variables always analyzed are changes in industrial environment, changes of market and demand, and changes in business due to the changes in technology and communication.

Based on the problem indentification related to the business condition and phenomena in Indonesia, especially in aviation industry, the researcher limits the problem for some considerations. These considerations are adjusted to the background of this study, especially with the phenomena happening in the aviation industry in Indonesia. Accelerated changes in the industrial environment have caused uncertainties in business environment, affecting the strategic plan that has been formulated and subsequently affecting the performance. In this case, it needs a performance appraisal system which does not only measure the performance from the financial aspect but also customers, internal business process, as well as growth & learning [1]. The performance measurement uses the method of Performance Prism which has excellences in identifying stakeholders from many interested parties, such as owners and investors, suppliers, customers, employees, government and surrounding society. The researcher limits several variables,

namely the environment of aviation industry, market orientation, competitive strategy and business performance.

LITERATURE REVIEW

Business Performance

Business performance measurement evolves in line with the progress of era. In 1980s, western world acknowledged the economic success of Japan (with limited resources) resulted from the efficiency and effectiveness in operation. Many researchers have criticized and given reasons for the limits concerning traditional finance, among the measures in 1980s [1] those leading to new exploration of business performance dimensions. Some performance measurement systems which are made significant have effects on the concept of performance and give a template for business to design the indicators of performance [1]. Different models and frameworks are addressed to different aspects of business performance. Such business excellence models as European Foundation for Quality Manajemen, The Malcolm Baldrige National Quality Award and choose quality management for performance improvement. For detail review on the performance of measurement system.

Airline Performance measured by Performance Prism

The Performance Prism (PPR), developed by Neely and Adams in 2003, is a performance management system organized around five different perspectives but related to performance: stakeholder satisfaction, strategy, process, capability, and stakeholder's contribution. The five different but logically interrelated perspectives on performance have been identified by Neely and Adams along with five key questions for measurement design:

Stakeholder satisfaction: The key question in this perspective is: who are the key stakeholders and what they want and need? Organizations that wish to succeed in long term in the recent business environment have a very clear picture of who their key stakeholders are and what they want. This perspective has broder mindedness than Balanced Scorecard to see the stakeholders, which comprises only stockholders and customers.

Strategy: The key question here is: What strategy we have to put into place to satisfy the key stakeholders' want and need?

Process: What critical process do we need if we want to implement this strategy?

Capability: The main question in this perspective is: what capability do we need to operate and improve this process?

Stakeholder's contribution: What contribution doe we need from stakeholders, if we want to maintain and develop such a capability?

If a company pays attention and tries to fulfill any request/interest of each stakeholder, then the company can also demand higher contribution from each of those stakeholders. It is not a simple thing to be able to fulfill all the requests and

interests of stakeholders. The problems frequently happening are:
1. The company fails to translate the wants and needs of each stakeholder.
2. The unconformity in wants and needs between the company and each stakeholder, even it often causes contradictive choices.
3. The size of performance used is not suitable with the strategy, process, and company's ability to fulfill the wants and needs.

This study uses the grand theory of business management, middle range theory of strategic management and organizational behaviour, as well as applied theory of aviation industrial environment, market orientation, competitive strategy, and business peformance supported by the management of airline companies.

Cost Leadership Strategy

Cost leadership strategy tries to provide, standard no-frills, big volume with the most competitive price for customers [2]. Such a strategy is more preferable in the developing countries such as Indonesia, Malaysia, India and China where those countries can provide cheaper workforces and the cost of production will be lower. In the aviation service industry, cost leadership strategy is much relevant to be applied and the company which implements this strategy will be called LCC (low cost carrier). Some companies that implement LCC strategy among others are Southwest Airlines and Jetblue Airways in Amerika, Ryanair and Easyjet in Eropa, Westjet in Canada, Virgin Blue in Australia and Air Asia in Malaysia. In Indonesia, the companies that implement LCC strategi among others are Air Asia Indonesia, Citilink, and Lion Air.

Some airlines combine the low cost carrier and full sercive which is known as low fare limited services. The airlines in Indonesia uses this concept especially to serve the flights with more than three hour travels. Some rows are provided for business passengers with full service whereas the rests are mostly for low cost service. Those who are in the category of full-service passengers have high function and position and are treated as the very important persons (VIP) and commercial important persons (CIP). The standard and procedures to serve such passengers are personal services from the station manager during the processes of check in and embarkation. Baggages are labelled with VIP Label, Doorside Label and loaded in F/C container. The office of arrival is informed in advance by the office of departure about the status of these guests, so that they are served appropriately. Some VIP guests are President of the Republic of Indonesia, Vice President of the Republic of Indonesia, Chairmen of People's Consultative Assembly (MPR), House of Representatives (DPR) and Supreme Advisory Council (DPA), Ministers, Governors, Ambassadors, Commander of the Indonesia National Army, Chief of the Republic of Indonesia Police, Attourney General, Chiefs of the Army Staff, Presidents of foreign countries, Prime Ministers of foreign countries. Commercial guests are such as President Directors, Corporate Executives, big companies' Board of Directors and Board of Commissioners. Innovative marketing strategy is not only how to carry

many more passengers, but also how to enable significant reductions in the costs of distribution and marketing. Such a strategy is used as a competitive strategy of Low Cost Carrier to reduce its costs and to enable low tariff.

Low-Cost Focus Strategy

The airline companies that implement low-cost focus strategy among others are charter companies which specifically serve tourists or groups with certain destinations, for example the flights for pilgrimmage (hajj and umroh) carried out by certain airlines like Garuda Indonesia. There are also tourist groups who travel to certain tourist destinations. Passengers do not require prime services but only transportation to the tourist destinations, thus departure schedule will not be a basic need. Of course, lower price of ticket and flexible departure schedule as well as comfortable cabin are still the standard. Such airlines not every time have sufficient passengers since the tour seasons are only in certain periods and after that some of the fleets are not productive. In-flight services are provided for passengers but not a part of compliment.

Industrial Environment

According to Wittmer [3], industrial environment in aviation industry based on Porter theory. In the explanation about this, the researcher limits the discussion only in the environment of aviation industry comprising new competitor's threat, substitute products, suppliers (manufacturers and providers), buyers (customers) and competition (airline industry).

Market Orientation

The concept of market orientation states that it is not only the responsibility or interest of marketing function, but all departments paticipate in gathering, distributing and following up market information. In addition, market orientation focuses on markets including customers and the factors or forces affecting it [4,5]. The behavioural perspective of market orientation concentrates in the process or organizational behaviour which consists of three main activities: 1) systematic gathering of market information related to customer's current and future needs; 2) market information dissemination to all organization units/departments; 3) designing and implementing the organization's reponse to the market information in a coordinated and comprehensive manner [4].

Market orientation has potentials to improve business performance. In addition, market orientation is also believed to give psychological and social benefits to the employees, in the form of greater pride and sense of belonging, as well as greater commitment to the organization. Subsequently, they identify three environmental factors which are influential in moderating the correlation between the degree of market orientation and business performance: market turbulence, rivalry intensity,

and technological turbulence.

If the market turbulence and rivalry intensity are getting higher, then the correlation between market orientation and business performance will be stronger; but if the technological turbulence is getting higher, then the correlation between market orientation and business performance will be weaker. Thus, it can be said that market orientation is the determinant of business performance which is more important in the turbulent market, very competitive, and its degree of technologi is relatively stable or established.

Framework

Based on previous researches, we can develop a framework of the influence of industrial environment and market orientation on the competitive strategy and its impact on the business performance (Figure 1).
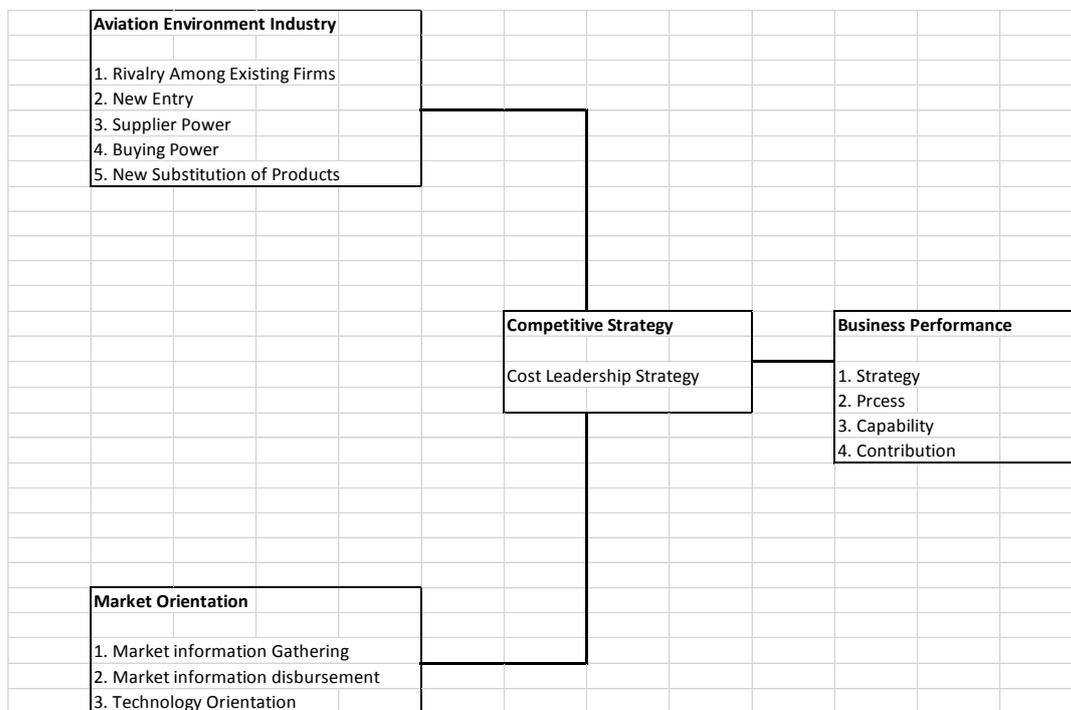

Aviation Environment Industry

1. Rivalry Among Existing Firms
2. New Entry
3. Supplier Power
4. Buying Power
5. New Substitution of Products

Competitive Strategy

Cost Leadership Strategy

Business Performance

1. Strategy
2. Prcess
3. Capability
4. Contribution

Market Orientation

1. Market information Gathering
2. Market information disbursement
3. Technology Orientation

Figure 1: Business performance.

RESEARCH METHOD

In this research, the analysis units are national airline companies and their buniness units. Observation is done at the time horizon, that is one shoot with cross-sectional data, i.e. gathering information from the population or direct census at the site to know the opinion of population toward the object being studied. Whereas the observation units are the officials in every airline and its business units in the levels

of director, general manager or manager which are considered as having sufficient knowledge about the object of this study. Subsequently, to understand the situation more deeply to solve problems, it needs in-depth interviews with the management team of the company that becomes the object of problem solving.

To clarify the responses from the management, it is compared with the response from loyal passengers who have used the flight service at least three times using Batik Air and Garuda aircrafts representing full service flights, and Lion Air and Citilink representing low cost flights.

Population and Sampling Technique

Population is the whole stakeholders of airline companies in Indonesia. The sample is taken from loyal users who have made transactions at least three times with Batik Air and Garuda aircrafts representing full service passengers; and Lion Air and Citilink, Air Asia representing low cost passengers, and the airlines management.

Design of Analysis and Hypothetical Test

Through this study it is expected that the use of performance prism model can explain the process that happens in the airline business, starting with the identification of stakeholder need and then strategy formulation using the capability and processes that exist in the airlines. The ultimate result is that it can give values for better airline business with support from all stakeholders in the existing airline business system.

This verificative analysis is designed to examine the influence of aviation industrial environment and market orientation on competitive strategy as well as its effects on business performance by using the model of multiple relationship among variables, where information is obtained simultaneously so that the quantitative analysis technique uses structural equation modeling (SEM). The variance or component is frequently called PLS (partial least square). This statistical technique is used to verify the correlation among research variables. This study uses quantitative data analysis technique through test equation model and structural equation model introduced by Herman Wold, which is Partial Least Square (PLS) and often called soft modeling. By using PLS it is possible to do structural equation modeling with relatively small samples and do not need a normal multivariate assumption, and by using PLS it is possible for the study to use both reflective and formative indicators.

To make a complete modeling in the use of Partial Least Square (PLS) which is frequently called soft modeling, there are several steps of PLS-based structural equation modeling as follows:
First Step-Designing Structural Model (inner model)
Designing the structural model of inter-latent variable relations in PLS is based on problem formulation or research hypothesis.

Second Step-Designing Measurement Model (outer model)
Designing measurement model (outer model) in PLS is very important because it concerns whether the indicator is reflective or formative.

Third Step-Constructing Path Diagram
If the first and second steps have been done, so as to more easily understand, the results of inner model and outer model designings are subsequently stated in the form of path diagram.

Fourth Step-Converting Path Diagram to Equation System
Outer model: Outer model is the specification of relationship between latent variable and its indicators, also called outer relation or measurement model, defining the characteristics of a construct with its manifest variable.
Inner model: Inner model is the specification of relationship among latent variables (structural model), also called inner relation, describing the relationship among latent variables based on the substantive theory of research.
Weight relation: Weight relation is the estimated value of latent variable case. Inner and outer models give specifications followed by estimated weight relation in the PLS algorithm.

Fifth Step-Estimation
The method of parameter estimation in PLS is the least square method. The calculation process is carried out through iteration, where the iteration will stop if the condition of being convergent has been achieved.

Sixth Step-Goodness of Fit
Outer Model: Convergent validity, Discriminant validity, Composite reliability.
Inner model: Goodness of Fit Model is measured using R-square of dependent latent variable with the same interpretation with regression.

Seventh Step-Structural Model or Inner Model Test
Structural model test is done to examine the relationship among latent constructs. There are some tests for structural model as follows:
R-Square: The value of R-Square is the determination coefficient of endogenous construct. The value of R-Square 0.67 is strong, 0.33 moderate, and 0.19 weak. Structural model (Inner model) is a structural model for predicting the causal relationship among latent variables. Through the bootstrapping process, the parameter of T statistic test is is found to predict the existence of causal relationship. Structural model (inner model) is evaluated by seeing the percentage of variance explained by the value of R2 to predict the existence of causal relationship.
Structural model (inner model) is evaluated by estimate for path coefficients: Estimate for Path Coefficients is a value of path coefficient or the magnitude of influence of latent construct. This is done using bootstrapping procedure. The significant size of hypothetical support can be seen from the comparison between T-

Table and T-Statistic. If the value of T-Statistic is higher than the value of T-Table, it means the hypothesis is supported or accepted.

RESEARCH RESULT

The tight government regulation for airline establishment. The thing that becomes the researcher's attention is that as many as 71 respondents say that the tight government regulation for Indonesia's market is expected not to be important for airline companies, but the fact is that 93 respondents or 46 percents say it is not important. Another finding from this factor is that other 12 respondents or about 6% expect it is very important but the fact is that it is not important. This indicates the threat of new airlines entering into the aviation industry in Indonesia is not in accordance with the fact.

Capital requirements for airline establishment

The thing that becomes the researcher's attention is that as many as 83 respondents say that the expectation to obtain the capital for establishing an airline company in Indonesia is not important but the fact is that 141 respondents or 70 percents say it is not important. This finding indicates a fact that to obtain capital for establishing an airline company in Indonesia does not become stakeholders' attention. This shows it is easy to obtain minimum capital for establishing a new airline so that it threats the existing airline companies.

Human Resources Available for Establishing an Airline

Respondents believe that the expectation to get human resources is only 44.5% but the fact in the field is that the highest response is 82.5%. This means the difficulty in finding human resources, especially those operationally trained and educated, is a factor which should be considered in establishing an airline. Managerial capability also reflects the quality of human resources and is a very important factor to be observed. Managerial experience, education, flight hours, discipline and sustainable training have made the human resources of foreign companies tend to be above the average quality of Indonesian airline human resources. This is a basic ability for a company to enhance its competitive advantage.

Supply Bargaining Power Factor

Supplier for airline company

It is easy to find a supplier for flight need. According to porter, the supplier power is important because it will influence the industry. In the aviation industry, supplier power is fairly high because there are only two main suppliers, namely Airbus and Boeing, so that there are not many choices for aviation industry.

Customer Bargaining Power Factor

Some indicators included in the questionnaire to respondents are cost of customer/travel agent if they move to another company, customer/travel agent loyal to a certain airline, potential of customers/travel agents to establish an airline. These indicators show the sameness between expectation and the fact in the field.

Substitute Product Factors

The potential of available high-speed land transportation mode

The item of the existing potential of high-speed sea transport is not a hindrance or obstacle or competition for Indonesia. This case is strengthened with the result of respondend's data; for expectation around 51.5% answering it is sufficient and 56% other answering it is insufficient.

Competition Intensity

Increasing supply of airline

It is known that too many suppliers will threat airline companies. The answer from respondents for expectation and fact is around fairly high and high. This can be explained that as a consequence of the economies of scale of the airlines's assets, willy-nilly they must maximize the production as possible in order to reduce the cost of production unit. Increasing production can be done by using aircrafts with bigger capacity as well as adding the flight frequency every day. But actually the threat of this competition intensity can be controlled by the regulator, in this case the government of Indonesia, which has authority to give permits for new aircraft purchase, flight routes, and flight frequency.

Increasing flight frequency that can threat airlines

It is found that all the scales measured indicate the conformity between expectation and fact. However, the competition is getting tighter since the issuance of deregulation policy on national aviation where the control over capacity, frequency and ticket price is very loose and follow the existing market mechanism. Especially the rivalry among airlines with the same market segment like low cost carrier (LCC) such as Lion Air, AirAsia, Citilink and Sriwijaya. Whereas the airlines of full service carrier (FSC), like Garuda Indonesia, tries to maintain its market share so as not to be eroded by new FSC airlines, i.e. Batik Air. The competition in the short route with 1-2 hours flight, has been very tight since passengers usually prefers low price ticket with no extra service than paying more expensive for premium service. This premium service is more needed by the passengers who fly more than 3 hours because they need better comfort and food and beverage while in flight.

Intensity of airlines serving the flight routes

Data from respondents shows the conformity between the respondent expectation and the fact in the field. This indicates that the competition intensity is fairly high especially among the airlines with the same market segment like low cost carrier (LCC) such as Lion Air, AirAsia, Citilink, and Sriwijaya.

From porter's analysis of industrial environment with five dimensions and developed by the researcher with some items, several things can be noted. According to Porter, if the market is good there is a possibility of threat from new companies entering the industry where they will grab the market share. In this research dissertation, there are several findings that make the existing dimensions different from Porter's. This study is also the same as Proml's study that airline industry is characterized with low entry barrier and ever-growing market. However, there is a similarity with Porter's theory that the barriers for new entry are through economies of scale and access to distribution channel.

Market Orientation

The factor of market information gathering serves customer need

Airline companies have tried to fulfill customer need which is indicated by their responses fairly high and high for expectation and fact. Even 48 respondents or 24% expect not important but the fact is 70 respondents or about 35% give data that serving customer need is still less important. Customer need much varies, so that it sometimes influences the strategy formulation.

Detecting the changing customer need

It is found from the data from respondents that in fact 70 respondents or 35% say it is not important. Flight services in which people are interested in are dominated by low cost transport. Customers will surrender and accept with all consequences. It is different from the full service flight like Garuda.

Detecting the changing competition among airlines

There is an interesting finding that 24 respondents or 12% give data that the airline should detect the change of its competitors. In fact, 12 respondents or about 6% give data that their companies think it is not important to detect the change of their competitors. This indicates that airline companies infrequently do market orientation, especially gathering sufficient information on market so that the strategy formulation will be inappropriate and result in poor business performance. The implementation of market orientation by airline companies is not much attractive because it needs perseverance and thoroughness. In general, airline companies tend to test run for serving new flight routes. If a company succeeds in a certain route then other airlines

will immediately follow their predecessor by using a competitive strategy which is more excellent than the airline who has entered the route before. This way may be more practical but it needs higher cost and risk.

Factor of Market Information Dissemination

Inter-department coordination is needed to fulfill customer need

The interesting point is that 3 respondents which is only 1.5% state that they expect it is very important but the fact is that their company does not do it, indicating that inter-department coordination is very necessary for fulfilling customer need. If the coordination is done well then it will be easy for the company management to formulate the strategy which will be implemented in the business performace.

Market Research on Customer Need

Market research on customer need is very necessary because the customer need for air transport service is always changing. Market demand is not only influenced by the condition of domestic and global economy, but it also much varies following national events happening in the period of one full year, namely Eid al-Fitr, Christmas, New Year, school holiday, hajj season, umroh travel, etc. Market demand reaches its peak in those events (peak season) whereas out of those events is low season. Airline companies enjoy their harvest time only in the peak season which is less than three months, whereas the rest of 9 months is famine season. Thorough finance management is needed to be able to endure due to such a market fluctuation. Market demand is also influenced by other factors which are difficult to predict like earthquake, vulcanic eruption, extreme weather, epidemic desease, terrorism threat, and economic recession.

Market Response Factor

Response to competitor's marketing strategy

Airline companies need to respond the competitor's marketing. It is difficult to eespond competitor's marketing strategy because every airline has their own strategy formulation which has been predetermined in order to fulfill customer need.

Information Technology Factor

Studying new aviation technology

By using information technology (IT) in the passenger reservation system, ticket reservation can be done anytime and in any location. Likewise, the flight operational control system has a function for monitoring any movement of aircraft at anytime. Aircraft technology is getting more sophisticated, providing easy way for the pilot to

control the aircraft, better safety and better comfort.

The implementation of information technology in passenger service

Airline companies need to implement information technology in passenger service. It is found from the data given by respondents that 95 respondents or about 47.5% say it is not necessary, but in fact 128 respondents or about 64% say the companies have done it and considered it necessary. However, there is a pro-and-con of answer where 21 respondents or about 10.5% say it is very important but in fact it is not done even by the airline company where they work.

Degree of service innovation with the use of new technology

The degree of service innovation with the use of new technology in airline industry obtains fairly high attention. Airline industry takes an advantage of ICT because both airline companies and airline-supporting service companies always have data of customers, flight schedule. Therefore, data gathering and simulation will be maximal if arranged using ICT (Information, Communication and Technology). The advancement of ICT is made by companies to become tools for guiding airline companies in improving their preflight, inflight and postflight services to every passenger to give a feeling of comfort.

These findings are in line with the opinion that market orientation focuses on the market including customer and the factors influencing it [4] and Slater [5]. However, the power of technology as stated by Voss and Voss [6] is the market orientation paid much attention by airline management. In term of technology, interference from stakeholders much determines the back and forth of an airline business, starting from ground handling, air traffic control technology, other airline services. So, these factors must be part of strategy development, especially in the operational field. Referring to the previous theory that in accordance with statement of Jaworski and Kohli [7-15], market orientation has a potential to improve business performance mainly in the aspect of technological turbulence.

Competitive Strategy/Cost Leader-ship Factor

Average ticket price offered by airline companies

The response from respondents for low ticket price is interesting because theoretically low price becomes a foundation to win the competition among airline companies. Since the introduction of Low Cost Carrier concept gets enough portion for low cost airlines, airline companies have targeted big market that prefers ticket price as cheap as possible. Most of corporate strategies are to aim middle-low market [16-29].

Number of aircraft operated

This finding is interesting because the respondent's expectation spreads evenly from the index of importance measurement. But the fact in the field is that not important increases from 10.5% to become 41.5%, fair from 27% to become 55.5%. This finding means that the number of aircraft being operated is not important in the airline business competition in Indoneisa.

Business Performance

Customer satisfaction

The importance of customer satisfaction becomes not important for the management of airline companies in Indonesia. The available facilities are almost the same because almost all airline companies offer similar product with no significant differences among the airlines. Even if there is a difference, it is only on the aspect of product attribute like the level of service and it does not have strategic advantages since it can be immediately imitated by the competitors. Commodity product is characterized with the intense competition which will influence the price sensitivity and relatively small profit [30-41].

The increasing number of serviceable aircrafts.

In order to reduce the operational cost of aircraft, LCC airlines are more frequently on air rather than on the ground. Every time it lands, LCC aircrafts must not be too long on the ground; 24 to 30 minutes in average. LCC aircraft can also be on air up to 12 hours per day, whereas regular aircrafts only 8 hours per day. For extra facilities like food, beverage, entertainment, excess baggage, seat position and even insurance, the prospective passenger must be ready to pay them. Passengers may bring bagage only 7 kgs for LCC. If any excess, passenger must pay the extra charge which may be more expensive if paid at the airport. Regular airlines do not charge the bagage fee between 20 to 32 kgs.

Rewards for employee

The researcher takes the item concerning the company giving reward to high quality employees. The payment system, especially to the employees in the operation department, is like the one to professionals, that is based on working hours or which is booked as variable cost. The more diligent an employee, in this case always come, in fit condition, healthy and standby on call, the better result he will enjoy. The reward for the employee with high performance or achievement usually only applies for those in the headquarter office and for administration staff which is not many in number.

External and Internal Complaints

The ratio of aircrafts which fly according to the schedule

Respondents expect this to be paid attention by the airline management but in fact it is not done. This indicates there are still many aircrafts late for flight/delay from the schedule.

Operational Process

Customer complaints responded

The finding from the data given by the respondents is that it is doubtful that the companies will respond all the complaints of customers. Even 21 respondents or 10.5% expect the airline companies make customer's complaint becomes an important thing for them but factually they did not do it. Customers have made this item as a common thing; not all customer' complaints will be responded. The number of airline companies operating in Indonesia is limited whereas the interest to use air transport service is huge since the price is achievable, especially for middle-low class with a certainty of departure, although the time is unpredicted. Customers are willing to wait until the aircraft departs although they have to spend much time in the airport lounge. The complaint for the airports in Jakarta is very little, but in the airports out of Jakarta, it has been a common secret and customers can anticipate it.

Capabilities

Health factor

Airline company's capability in the form of health-care facilities are provided for sick employees. The finding is fairly interesting; routine medical check-up has been done for both cabin crew and cockpit crew. It is a risk for crew to be sick or not in fit condition. Like professional workers, with high wage per hour, health factor is the responsibility of professional staff. The crew are instructed to keep healthy during on duty as well as on day off. Day off (rest at home) is a standard regulation made by the Ministry of Manpower and the Ministry of Transportation [42-50].

Contribution

Consumer loyalty

The dependence of passengers on a certain flight makes no alternative for them. This dependence starts from the price suitable with passenger's budget, aircraft availability especially the biased departure schedule adjusted to passenger's need whether for business, family or urgent matters. Today, airports in Indonesia operates as if they never sleep. Flight facilities serve for 24 hours a day. The intersting thing is

that the tariff and facilities of all airports will be different, depending on time. Recently many airline companies take advantage of low cost. For example, take off before 06:00 am because after 06:00 am a higher official tariff will be applied. For local flight using small aircrafts, passengers do not have opportunities to use another aircraft from other airline companies because certain routes are served only by one airline company. Even, the flight schedule is once to twice per day, in the morning and afternoon. Some improvements have been done by the airlines, such as paying attention to the length of time taken to respond customer's complaints/inputs. For example, in-cash ticket changes or cancellation must be returned in 15 days, whereas for the ticket bought by using credit card, it must be returned in 30 days after the claim submission [51-61].

Employee Training

Airline companies recruit ready-to-work human resources. The absolute requirement for acceptance is that all the employee candidates have been trained and educated by a reputable institution with various professional certifications. Other airline companies will recruit skilled and educated human resources from other airline companies because the candidate has completed his contract period in the previous company, or there are problems in the previous company. Another reason why an airline finds difficult to train the employee is because the so high flight intesity in Indonesia that all employees are expected to work as maximal as possible. Even, cockpit crew or pilot sometimes work exceeding the capacity of flying hours in based on the standard established by the Ministry of Transportation. The same thing happens to other employees like stewardess, ground handling staff, maintenance staff, etc.

Analysis on Research Model

Outer Model test

Outer model evaluation is a measurement model for assessing the validity and reliability of the model. Through the process of algorithm iteration, the parameter of measurement model (convergent validity, discriminant validity, composiste reliability and cronbach's alpha) are obtained, including the value of R^2 as the parameter of prediction model accuracy.

Validity test

It shows that loading factor gives a value above the suggested value, that is 0.5. It means that the indicator used in this study is valid or has fulfilled the convergent validity. After examining the convergent validity, it continues to examine the discriminant validity by seeing the value of cross loading. An indicator is considered as valid if it has the highest loading factor to the addressed construct compared with the loading factors to the other constructs. The loading factors of LI, OP, SB KB

indicators have loading factors for LI, OP, SB and KB constructs higher than other constructs. This means those indicators have good discriminant validity [62-64].

Thus, latent constructs predict the indicator in their block better than the indicators in the other blocks. Another method to see discriminant validity is comparing the square root value of average variance extracted (AVE) of each construct with the correlation between one construct and another in the model. The value of average variance extracted (AVE) for LI, OP, SB and KB is above the standard value (0.5), indicating the construct has a good value of discriminant validity. The model has a discriminant validity which has fulfilled the criteria of discriminant validity.

Reliability

Reliability test is carried out by seeing the value of composite reliability and Cronbach's alpha. Cronbach's alpha measures the lower threshold of reliability value of a construct, whereas composite reliability measures the actual reliability value of a construct. The results of reliability test on the construct of composite reliability shows that the value of composite reliability for all constructs are above 0.7, indicating that all constructs in the estimated model in this study are reliable. It also indicates the value of cronbach's alpha of each construct is above the suggested value, that is 0.6, thus it can be said that the indicators used in this study are reliable. In addition, the value of Cronbach's Alpha and the value of composite reliability, which are used to test the inter-variable reliability of constructs, shows that the value of communality in the constructs of LI, OP, SB and KB are above 0.5, meaning that the indicators used in this study are reliable. The results of communality are used to strengthen the results of examination on Composite Reliability and Cronbach's Alpha.

Structural Model Test (Inner Model)

After the estimated model having fulfilled the criteria of outer model, the next step is structural model test (inner model). The output of another test on the model is seen from the value of R - Square resulted from goodness-fit-model test. The value of R-Square is 0.630. It can be explained that the influence of Aviation Industrial Environment variable (LP), Market Orientation (OP) and Competitive Strategy (SB) on the Company Performance (KP) gives value amounting 0.630 which can be interpreted that the construct variable of company performance can be explained by the construct variable of aviation industrial environment, market orientation and competitive strategy amounting 63.0%. While the rest of 37% is explained by other variables outside the study. (Note: The value of R-Square is taken from the Output of PLS Algorithm).

In the mediation effect test, the output of significance test parameter of total effect, not in the path coefficients, because in the mediation effect not only direct effect test of the independent variable on the dependent variable has been done but also the interactional relationship between independent variable and moderating variable

toward dependent variable (indirect effect). Therefore, total effect is used to see the predicted total effect (direct and indirect effect). Based on the total effect, the bootstrapping interaction results in the T-statistic value of moderating variable<1.96.

Analysis on the Influence of Industrial Environment on the Competitive Strategy and Business Performance

Business Performance = 0.660 + 0.007 Industrial Environment + 0.77846 e→R^2 = 0.606

It means, with the contribution of R square as much as 60.6%, if Industrial Environment experiences an increase of value as many as 1 (one) unit then the business performance will increase 0.007 or 7%. Vice versa, if there is a decrease of 1 (one) unit then the business performance will decrease 7%. This is because the model is one way and studies on the theory find that analysis on aviation indsutrial environment is turbulent.

Whereas if a mediating variable of competitive strategy is added then the value of R square can be obtained. The value of adjusted R - Square is 0.620, which can be explained that the influence of Aviation Industrial Environment variable (LP) and Competitive Strategy variable (SB) on Company Performance (KB) gives the value of 0.620 which can be interpreted that the variable of company performance construct can be explained by the variable of aviation industrial environment construct and competitive strategy as much as 62.0%. While the rest of 38% is explained by the variables outside the study. Thus:

Business Performance = 0.656 + 0.229 Industrial Environment + 0.540 Competitive Strategy + 0.787401 e→R^2 = 0.620

It means, with the contribution of R square as much as 62%, if Industrial Environment experiences an increase of value as many as 1 (one) unit then the business performance will increase 0.229 or 22.9% assuming that there is no increase in business strategy. Because it is a one-way path and in accordance with the theory that this analysis is turbulent, so if there is a decrease of 1 (one) unit then the business performance will decrease 22.9% assuming that there is no increase or decrease in business strategy.

For hypothetical test, it is seen that industrial environment positively influences the competitive strategy as much as 0.229 with the value of t calculation 4.997 and p value less than 5%. This indicates that the higher the threat of industrial environment, the competitive strategy being implemented by a company will increase as well. Subsequently, industrial environment does not influence business performance as many as 0.007 with the value of t calculation 0.188 and p value more than 5%. This indicates that the higher the threat of industrial environment then the business performance will also be higher but industrial environment does not

significantly influence the business performance. Competitive strategy positively influences the business performance as much as 0.540   with the value of t calculation 7.159 and p value less than 5%. This indicates that the higher the competitive strategy being implemented by a company, business performance. The influence of industrial environment on business performance through competitive strategy is 0.130, and it is bigger then the influence of industrial environment on business performance which is 0.070. This indicates that with the business strategy appropriately implemented, especially low cost strategy, it will alleviate the threat of industrial environment so that business performance will increase.

Analysis on the Influence of Market Orientation on Competitive Strategy and Business Performance

Business Performance = 0.660 + 0.313 Market Orientation + 0.893308e

It means, with the contribution of R square as much as 79.8%, so if Market Orientation experiences an increase of value as many as 1 (one) unit then the business performance will increase 0.313 or 31.3%. Because it is a one-way relationship, so if there is a decrease of 1 (one) unit, then the business performance will decrease 31.3%. This is also because market orientation is turbulent. Whereas if mediating variable of competitive strategy is added, then the value of adjusted R - Square is 0.802, which can be explained that the influence of Market Orientation variable (OP) and Competitive Strategy variable (SB) on Business Performance (KB) give a value of 0.802 which can be interpreted that the variable of business performance construct can be explained by the variable of aviation industrial environment construct, market orientation and competitive strategy as much as 80.2%. Whereas the rest of 19.8% is explained by other variables outside the study. Thus, the picture of structural model path is found as follows:

Business Performance = 0.656 + 0.677 Market Orientation + 0.540 Competitive Strategy + 0.895545 e

It means, with the contribution of R square as much as 80.2%, so if Market Orientation experiences an increase of value as many as 1 (one) unit then the business performance will increase 0.677 or 67.7% assuming that there is no increase in business strategy. Likewise, if there is a decrease of 1 (one) unit then the business performance will decrease 67.7% assuming there is no decrease in busines strategy, because it is turbulent.

Market orientation positively influences competitive strategy as much as 0.677 with the value of t calculation 19.197 and p value less than 5%. This indicates that the higher the market orientation, the competitive strategy being implemented by a company will increase as well. Subsequently, market orientation positively influences business performance as many as 0.313 with the value of t calculation 5.257 and p value less than 5%. This indicates that the higher the market orientation, then

business performance will also be higher. Competitive strategy positively influences competitive performance as much as 0.540 with the value of t calculation 7.159 and p value less than 5%. This indicates that the higher the competitive strategy being implemented by a company, then business performance will also be higher. The influence of market orientation on business performance through competitive strategy is 0.678, bigger than the influence of market orientation on business performance which is 0.313. This indicates that with the appropriately implemented business strategy, especially low cost strategy, it will increase the market orientation so that business performance will increase too.

CONCLUSION

Based on statistic calculation, four structural equation models, as the path for companies to improve business performance, are found. From the four models, the path with strongest influence on airline company's business performance in Indonesia is Market Orientasi through the cost leadership strategy. This path can become a model of company's business performance in Indonesia.

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