STRATEGY MODEL FOR CREATING THE CORPORATE ADVANTAGE OF INDONESIAN AIRLINES

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ABSTRACT

National airline companies in Indonesia generally have not had optimal advantages. Such a condition needs a thorough analysis and appropriate strategy implementation. This research aims to study the creation of corporate advantage in Indonesia's domestic airlines through a market-driven strategy based on market attractiveness and resource capability.

This study uses the method of explanatory survey, descriptive and verificative with data analysis using Structural Equation Modeling (SEM) based on Partial Least Square (PLS). The analysis unit in this study is Indonesia's national airlines while the observation unit is the management of Indonesia's domestic airline companies. This study is cross sectional in 2016.

The result shows that market attractiveness, resource capability, and market-driven strategy simultaneously affect the corporate advantage of Indonesia's airline industry. In partial, only resource capability does not influence the creation of corporate advantage, i.e. it affects market-driven strategy as the mediating variable.

The recommended strategy model is the one for creating corporate advantage of airline companies through market-driven strategy based on market attractiveness and resource capability.

Keywords: Market Attractiveness, Resource Capability, Market-Driven Strategy, Corporate Advantage, Indonesia's Airline Industry.

INTRODUCTION

Every airline company expects to have a high level of corporate advantage for their business competition. Corporate advantage can be created through market-driven strategy based on market attractiveness and resource capability. In general, the corporate advantage of Indonesian airlines has not been optimal if compared with the foreign airlines in the aspects of flight punctuality, profit gain, or flight safety and security. In fact, Indonesia's domestic market has very high potential and attractiveness.

This phenomenon is reflected by the domestic airlines' performance in their operation and flight service: unachieved target, highly frequent delay, frequent complaints and fairly frequent flight accidents. These, in turn, reflect that national airlines lack excellence in the aspects of product quality, innovation, business growth, and corporate image, contrast with the high market potential. This condition indicates that they do not implement market-driven corporate strategy based on market attractiveness and resource capability.

Based on the number of passengers and aircrafts, Indonesia's airline industry is one of the air transports with the highest growth in Asia Pacific and in the world (Airlines business, 2008 & 2009). With 17,500 islands divided into three different time zones, Indonesia has been

acknowledged by International Air Transport Association (IATA) as one of the five airline markets with the fastest growth of passengers in the world (INACA, 2016).

Despite the global economic crisis, Indonesia still gives hope for the growth of aircraft passengers as projected by the growing demand for air transport. The problem is that Indonesia's national airlines have a high competitiveness but they are unable to exploit the high market attractiveness and resource capability as the basis for implementing market-driven strategy to achieve the corporate advantage.

In the variable of market-driven strategy, the problem is that not all Indonesia national airlines implement it appropriately and effectively, so they cannot achieve the optimal target.

BIBLIOGRAPHICAL REVIEW

Referring to Thomas et al. (2015); David (2011), strategic management contains two important things:

1. It consists of three types of management process, namely strategy formulation, strategy implementation, and strategy evaluation.
2. It focuses on unifying or combining the business aspects of marketing, research and development, finance/accounting and production/operation.

The theory related to air transport management refers to Gubbins (2009); Shaw (2011); Doganis (2006); Wells (1999); Heracleous et al. (2009); Thomas & Catlin (2014).

There are three airline business models in the corporate level (Heracleous et al., 2009):

1. Traditional integrated airlines model.
2. Virtual airlines model.
3. Aviation business model.

Furthermore, there is a change of future airline business model. According to Thomas & Catlin (2014), airline business competition is divided into three main models: Full Service Carriers (FSCs), Low Cost Carriers (LCCs) and hybrid LCC (combination of FSC and LCC).

The theory of market attractiveness refers to Nova (2014); Porter (1996); Best (2005); Cravens & Piercy (2006); Cromley et al. (1993); Walker et al. (1995).

The theory of resource capability refers to Protogerou et al. (2008), Barney & Clark (2007); Amit & Schoemaker (1993); Schreyogg & Eberl (2007); Hitt et al. (2007); Cigler (2007); Kusumasari et al. (2010).

The theory of market-driven corporate strategy refers to Collis & Cynthia (2005); Cravens & Piercy (2006 & 2009); Best (2007); Narver & Slater (1990). Marketing strategy process is the stage of strategic situation analysis to identify market opportunity, define the market segments, evaluate the competition, and assess the organization's strengths and weaknesses. Market sensing plays the key role in designing marketing strategy, which includes targeting and positioning, developing market relationship, as well as developing and introducing new products.

The theory of corporate advantage refers to Collis & Cynthia (1998 & 2005); Rozemeijer (2003); Chen & Chang (2013) where corporate advantage can be considered as the result of synergic cooperation among business units. Barney (1991); Coyne (1986); Porter (1985); Rozemeijer (2000), state that corporate advantage can be achieved through a synergy. Steininger

et al. (2011) examined the existence of business model concept for studying competitive advantages by integrating resources and market-based perspective.

RESEARCH METHOD

This research is descriptive and verificative through data collection, so the methods are descriptive survey and explanatory survey. The data analysis technique used is PLS-based SEM.

The population or analysis unit of this research is all the existing national airlines in Indonesia. The observation unit comprises 30 top managers of Indonesia's domestic airlines. PLS analysis consists of two models: measurement model (outer model) and structural model (inner model). Measurement model shows how manifest variable or observed variable represents the latent variable to be measured whereas structural model shows the strength of estimation among latent variables or constructs.

Complete structural model can be seen in the following Figure 1:

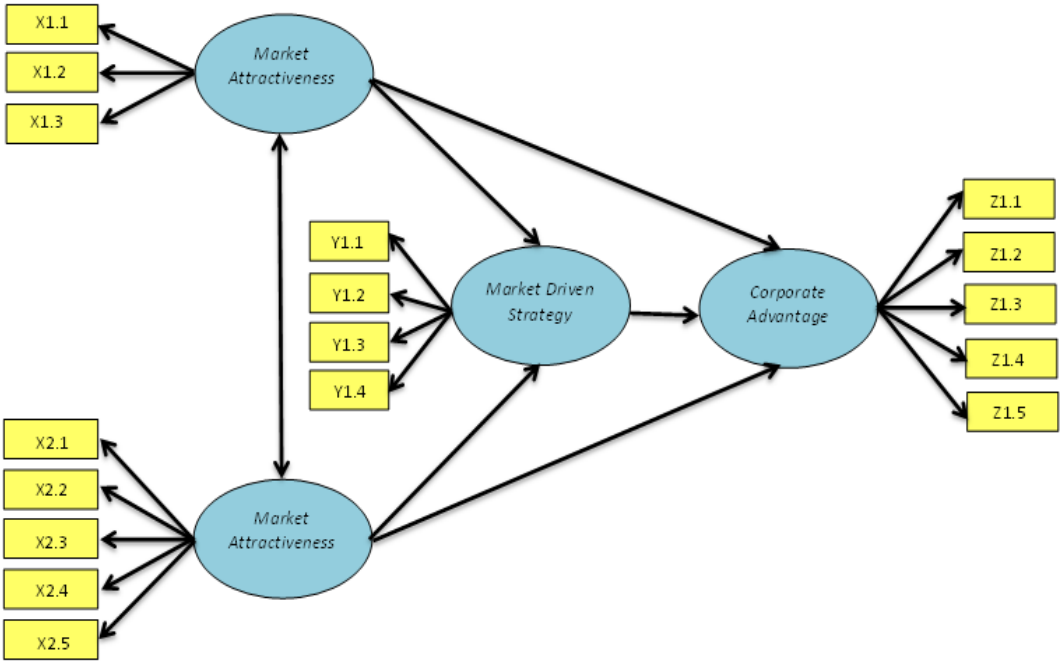

FIGURE 1
STRUCTURAL MODEL

All these four quantitative hypotheses are partially tested by comparing t-statistic with t-table at α=0.05 (1.96) and simultaneously tested by comparing F-statistic with F-table.

The estimated value of path relationship must be significant. The value of significance can be obtained through the bootstrapping procedure. The significance of the hypothesis can be seen through the coefficient value of parameter and the significance value of T-statistic in the bootstrapping report.

RESULT OF RESEARCH AND DISCUSSION

The calculation of full model is hypothesized as follows Figure 2:

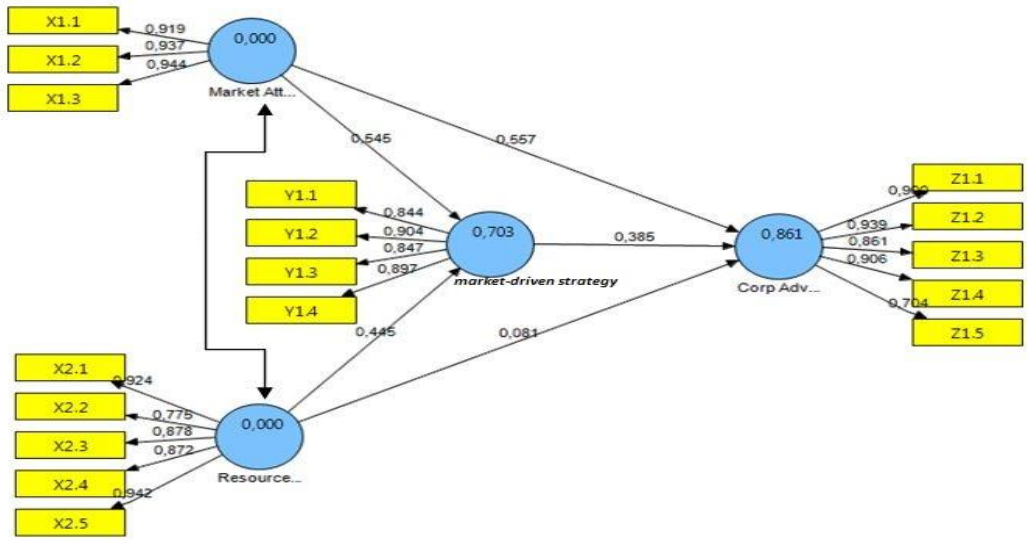

FIGURE 2
PATH DIAGRAM OF STANDARDIZED LOADING FACTOR

Structural model represents the relationship among latent variables. It involves two exogenous latent variables (market attractiveness and resource capability), one intervening latent variable (market-driven strategy), and one endogenous latent variable (corporate advantage).

The result of bootstrapping calculation for each variable is presented in the following Figure 3.

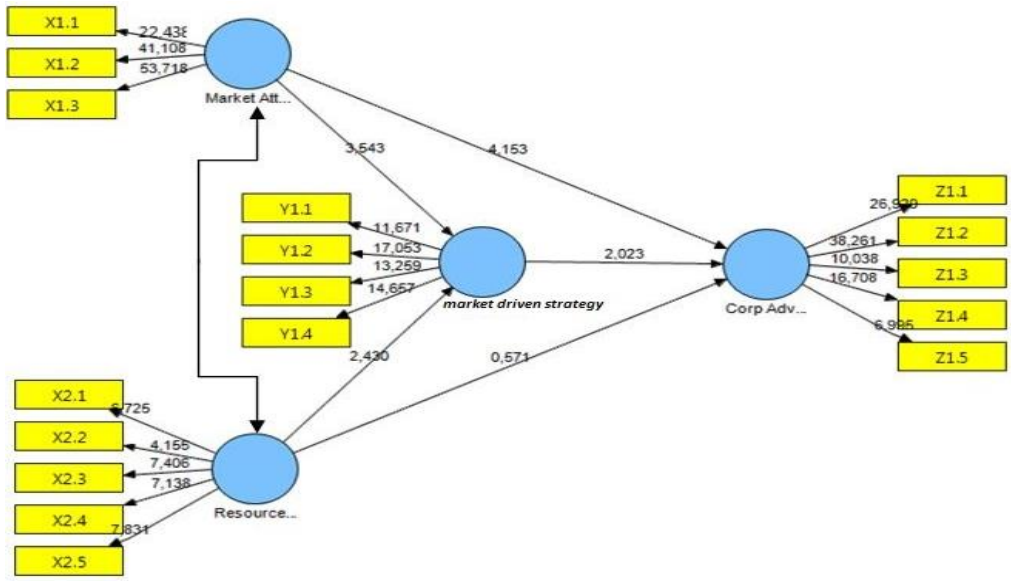

FIGURE 3
FULL BOOTSTRAPING OF STRUCTURAL MODEL

The structural model test is carried out in the following steps with the value of R-square as presented in Table 1.

Table 1
RESULT OF R SQUARE

Model	Path	Path Coefficient (Standardized)	t-statistic	Conclusion	R-square
First	X1 → Y	0.545	3,543	Significant	0.703
	X2 → Y	0.445	2,430	Significant	
Second	X1 → Z	0.557	4,153	Significant	0.861
	X2 → Z	0.081	0,571	Not Significant	
	Y → Z	0.385	2,023	Significant	

Source: Primary data processed, 2017

The Influence of Market Attractiveness and Resource Capability on Market-Driven Strategy in Indonesia's Airline Business

The first hypothesis examines the influence of Market Attractiveness and Resource Capability on Market-Driven Strategy both simultaneously and partially (see Figure 4).

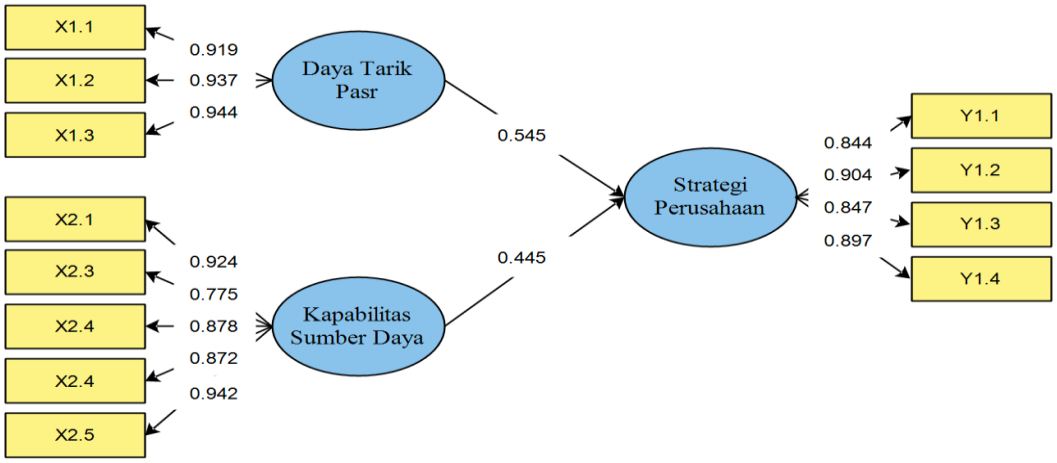

FIGURE 4
PATH DIAGRAM OF HYPOTESIS 1

The structural model for the above diagram is:

$$\eta_1 = 0.545\xi_1 + 0.445\xi_2 + \zeta_1$$

Table 2
RESULT OF SIMULTANEOUS AND PARTIAL TESTS ON HYPOTHESIS 1

Hypothesis	F calculation	γ	SE	T statistic	R^2	Remarks
Market Attractiveness and Resource Capability → Market-Driven Strategy	31.95*				0.703	Significant
Market Attractiveness → Market-Driven Strategy		0.545	0.153	3.543*	0.540	Significant
Resource Capability → Market-Driven Strategy		0.445	0.183	2.430*	0.459	Significant

*Significant at α=0.05
Source: Primary Data processed, 2017

Simultaneous Influence

The test on the simultaneous influence of Market Attractiveness and Resource Capability on Market-Driven Strategy is done through F test by using the following formula.

$$F = \frac{(n-k-1)(R^2)}{k(1-R^2)}$$

$$F = \frac{(30-2-1)(0,860)}{2(1-0,860)}$$

F_{cal}=31.955

With α=5% and df_1=k=2, df_2=n-k-1=30-2-1=27 the value of F_{table} is obtained ± 3.354.

Based on the calculation, the value of F-cal is 31.955 which are bigger than F-table (3.354). Hypothesis 3 is accepted, Market Attractiveness and Resource Capability simultaneously influence the Market-Driven Strategy in Indonesia's airline industry.

Partial Influence of Market Attractiveness on Market-Driven Strategy

The path coefficient of Market Attractiveness variable on Market-Driven Strategy is 0.545 with positive direction (see Table 2). The higher the Market Attractiveness the more it will improve the Market-Driven Strategy. This hypothesis is accepted because t statistic 3.543>1.96 (at significance of 5%), meaning that Market Attractiveness significantly influences the Market-Driven Strategy in Indonesia's airline industry.

Furthermore, the influence of Resource Capability on Market-Driven Strategy is tested. The path coefficient is 0.445 with positive direction (see Table 2). The higher Resource Capability the more it will improve Market-Driven Strategy. This hypothesis is accepted because t statistic 2.430>1.96 (α=5%), meaning that Resources Capability significantly influences the Market-Driven Strategy in Indonesia's airline industry.

The Influence of Market Attractiveness and Resource Capability on Corporate Advantage in Indonesia's Airline Business

The second hypothesis examines the influence of Market Attractiveness and Resource Capability on Corporate advantage both simultaneously and partially (see Figure 5).

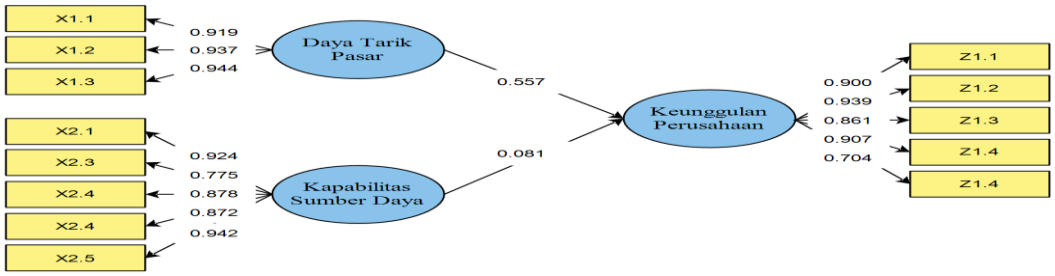

FIGURE 5
PATH DIAGRAM OF HYPOTHESIS 2

The structural model for the above diagram is: $\eta_1=0.557\xi_1+0.081\xi_2+\zeta_2$

Table 3
RESULT OF SIMULTANEOUS AND PARTIAL TESTS ON HYPOTHESIS2

Hypothesis	F calculation	γ	SE	T statistic	R^2	Remarks
Market Attractiveness and Resource Capability → Corporate advantage	82.93*				0.860	Significant
Market Attractiveness → Corporate advantage		0.557	0.134	4,153*	0.763	Significant
Resource Capability → Corporate advantage		0.081	0.141	0,571	0.335	Not Significant

*Significant at α=0.05
Source: Primary data processed, 2017

Simultaneous Influence

The simultaneous influence of market attractiveness and resource capability on corporate advantage is tested through F test by using the following formula.

$$F = \frac{(n-k-1)(R^2)}{k(1-R^2)}$$

$$F = \frac{(30-2-1)(0,703)}{2(1-0,703)}$$

F calculation = 82.928

At α=5% and df_1=k=2, df_2=n-k-1=30-2-1=27 the value of F table is obtained ± 3.354.

The value of F calculation is obtained 82.928>F table (3.354), then Hypothesis 3 (H_3) is accepted: Market Attractiveness and Resource Capability simultaneously influence the Corporate Advantage in Indonesia's airline industry.

Partial Influence

The path coefficient of Market Attractiveness variable on Corporate Advantage amounting 0.557 with positive direction (see Table 3). The higher the Market Attractiveness the more it will enhance the Corporate Advantage. This hypothesis is accepted because t statistic 4.153>1.96 (α=5%) meaning that Market Attractiveness significantly influences the Corporate Advantage in Indonesia's airline industry.

The next tested is the influence of Resource Capability on Corporate Advantage. As presented in Table 4 we can see the path coefficient is 0.081 with positive direction. The higher the Resource Capability the more it will enhance the Corporate Advantage. This hypothesis is rejected because t statistic 0.571<1.96 (α=5%), meaning that the test result is not significant or Resource Capability does not significantly influence the Corporate Advantage in Indonesia's airline industry.

The Influence of Market-Driven Strategy on the Corporate Advantage in Indonesia's Airline Industry

The third hypothesis examines the influence of Market-Driven Strategy on Corporate Advantage (see Figure 6).

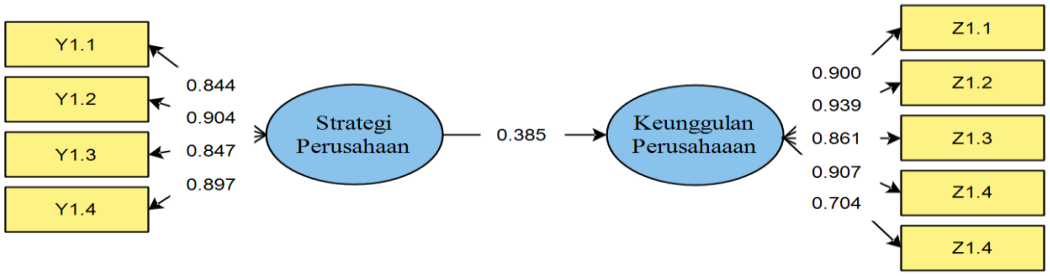

FIGURE 6
PATH DIAGRAM OF HYPOTHESIS 3

The structural model for the above figure is:

$$\eta_2 = 0.385\eta_1 + \zeta_3$$

Table 4
RESULT OF PARTIAL HYPOTHETICAL TEST HYPOTHESIS 3

Hypothesis	γ	SE	T statistic	R^2	Remarks
Market-driven strategy→Corporate advantage	0.385	0.190	2.023*	0.148	Significant

*Significance at α=0.05
Source: Primary data processed, 2016

Hypothesis 3 test examines the influence of Market-Driven Strategy on Corporate Advantage. As seen in Table 4, the path coefficient is 0.385 with positive direction. The higher the Market-Driven Strategy the higher it will enhance Corporate Advantage. Hypothesis 3 can be accepted since t statistic 2.023>1.96 (α=5%), meaning that the result is significant or Market-Driven Strategy significantly influences the corporate advantage in Indonesia's airline industry.

The Influence of Market Attractiveness and Resource Capability on Corporate Advantage through Market-Driven Strategy in Indonesia's Airline Industry

The fourth hypothetical test can be described from the direct and indirect influences.

Table 5
DIRECT AND INDIRECT INFLUENCES (MEDIATION)

Relationship	Direct Influence	Indirect Influence through Y	Total Influence	t statistic
X1 → Y	0.545	-	0.545	3.543
X2 → Y	0.445	-	0.445	2.430
X1 → Z	0.557	0.210	0.766	8.351

Table 5
DIRECT AND INDIRECT INFLUENCES (MEDIATION)

X2 → Z	0.081	0.171	0.252	2.118
Y → Z	0.385	-	0.385	2.023

Source: Primary data processed, 2016

Simultaneous Influence

The influence of Market Attractiveness and Resource Capability on Corporate Advantage is simultaneous and in partial through Market-Driven Strategy. The test is through F test by using the following formula.

$$F = \frac{(n-k-1)(R^2)}{k(1-R^2)}$$

$$F = \frac{(30-3-1)(0,861)}{3(1-0,861)}$$

F calculation=53.683

At α=5% and df_1=k=3, df_2=n-k-1=30-3-1=26, F table is obtained ± 2.975.

F calculation is obtained 53.683>F table (2.975), then hypothesis 4 can be accepted. It means Market Attractiveness and Resource Capability influence Corporate Advantage both simultaneously and partially through Market-Driven Strategy.

Partial Influence

The influence of Market Attractiveness on Corporate Advantage through Market-Driven Strategy is presented in Table 5. The total path coefficient is 0.766 with positive direction. The higher the Market Attractiveness mediated by Market-Driven Strategy the higher it will enhance Corporate Advantage. This hypothesis is accepted because t-statistic is 8.351>1.96 (α=5%) meaning that Market Attractiveness significantly influences Corporate Advantage through Market-Driven Strategy.

The influence of Resource Capability on Corporate Advantage through Market-Driven Strategy is presented in Table 5. The total path coefficient is 0.252 with positive direction. The higher the Resource Capability mediated by Market-Driven Strategy the higher it will enhance Corporate Advantage. This hypothesis is acceptable because t-statistic is 2.118>1.96 (α=5%) meaning that Resource Capability significantly influences Corporate Advantage through Market-Driven Strategy.

Based on these results, the author describes the model of research on the Strategy for Creating Airline Corporate Advantage through Market-Driven Strategy as follows:

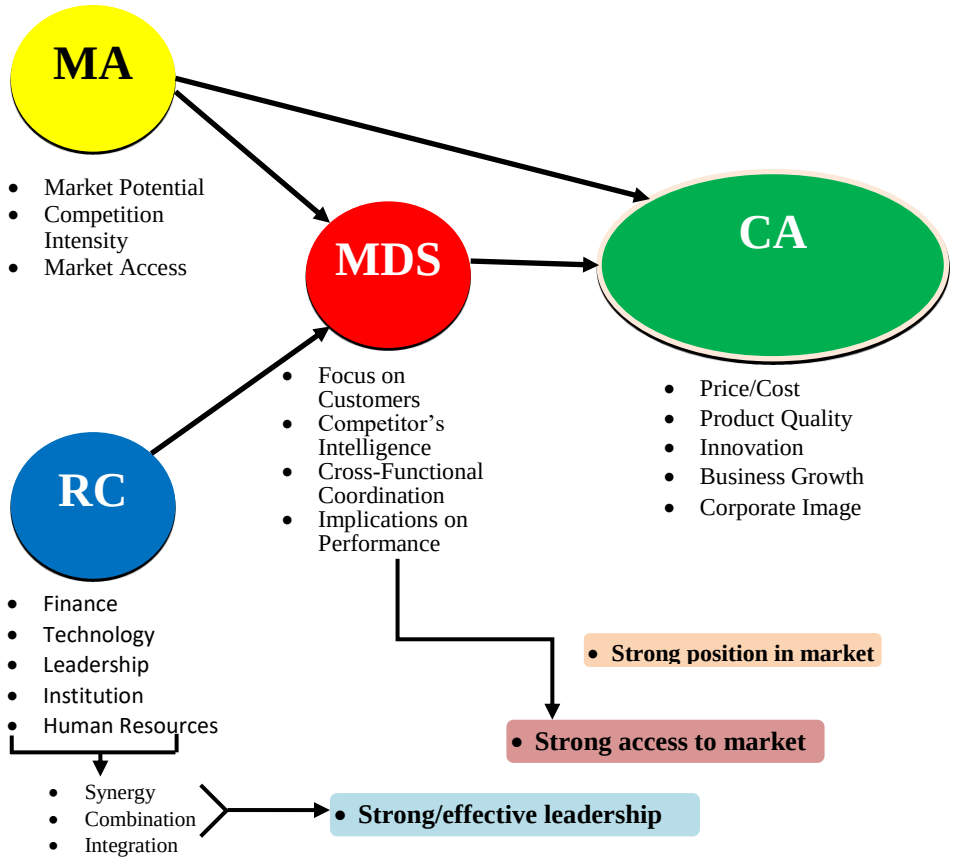

FIGURE 7
SAM'S AIRLINES STRATEGY MODEL

Remarks: MA: Market Attractiveness, RC: Resource Capability, MDS: Market-Driven Strategy, CA: Corporate Advantage

It can be explained that airline Corporate Advantage is significantly influenced by:

1. Market attractiveness and market-driven strategy both simultaneously and partially.
2. Market attractiveness, both directly and indirectly through market-driven strategy.
3. Market attractiveness, resource capability, and market-driven strategy simultaneously.
4. Resource capability indirectly through market-driven strategy.

The author believes, in order to establish excellent Indonesia's airline companies with sustainable competitive advantages, Indonesia's national airline companies must be able to implement the Market-Driven Strategy (MDS) appropriately and effectively.

CONCLUSIONS

Market Attractiveness and Resource Capability, both simultaneously and partially, give positive and significant influence on Market-Driven Strategy in Indonesia's airline industry. Market Attractiveness dominantly influences the formulation of market-driven corporate strategy, where the market potential shows positive things and is well responded by airline

companies. Market-Driven Strategy is also influenced by Resource Capability dominantly reflected by the dimensions of institution and human resources.

Market Attractiveness and Resource Capability simultaneously give positive and significant influence to the Corporate Advantage in Indonesia's airline industry, but in partial Resource Capability does not influence Corporate Advantage. Market Attractiveness dominantly influences the creation of national airline's Corporate Advantage, which is affected and formed by the existing high Market Attractiveness.

Market-Driven Strategy positively and significantly influences the Corporate Advantage of Indonesia's airline industry. An excellent company can be created through the appropriate and effective formulation and implementation of Market-Driven Strategy supported by Market Attractiveness and Resource Capability.

Market Attractiveness and Resource Capability positively and significantly influence Corporate Advantage through Market-Driven Strategy in Indonesia's airline industry. Market Attractiveness dominantly influences Corporate Advantage through Market-Driven Strategy. However, three dimensions of Market Attractiveness, i.e. market potential, competition intensity, and access to market, are not responded optimally by Resource Capability, especially in the dimensions of leadership, institution, and human resources.

Market-Driven Strategy, as the intervening variable, has a very important and decisive role for realizing Corporate Advantage.

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