

Analysis of the Implementation of Business Strategy and Financial Performance in Open Aviation Companies in Five ASEAN Countries

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ABSTRACT

This study aims to analyze the implementation of business strategies and financial performance in stock exchange-listed aviation in five ASEAN countries. The business strategy used is based on the typology of Miles and Snow which is divided into three types namely prospector, analyzer and defender. Four proxies are used to identify business strategy variables, namely number of employees on total sales (EMPSAL), company growth (MtoB), marketing (MARKET), fixed asset intensity (PPEINT) and financial performance variables namely return on equity (ROE), current ratio and dividend payout ratio (DPR). Forty-six annual reports published on the state stock exchange were used as samples in this study. The results of the total scoring of the Q1, median and Q3 values obtained 21 annual reports with prospector strategies, 14 analyzer strategies, and 11 defender strategies. However, out of 46 samples, only 21.74% of annual reports use a consistent type of strategies and another 78.26% use different strategies. The results of this study demonstrated that there is a significant influence on the prospector's strategy on the current ratio with a statistical T value of $2.455 > 1.96$ with an alpha of 5% which means that H_0 is rejected and H_1 is accepted. This significant result was also shown in the defender's strategy towards the DPR's value with a T value of $3,121 > 1.96$. But there is no type of strategy that have a significant effect on the value of ROE.

Keywords: Business strategy, Miles and Snow, Financial Performance, Stock exchange-listed aviation

INTRODUCTION

The aviation industry in the Asia Pacific region is predicted to experience growth in the next twenty years from 2018 to 2038. The average number of trips per person will increase 4-8% per year in developing countries and 1-2% in developed countries. The ten largest aviation industry markets in the Asia Pacific region that will experience growth are Mexico, Brazil, Russia, India, China, Indonesia, Malaysia, Vietnam, Thailand and the Philippines (IATA, 2019). Although IATA estimates that in the next twenty years the aviation industry will experience growth, but the aviation industry is also faced with other challenges that drive an increase in the company's operating expenses. The increase in operational costs of the aviation industry is particularly influenced by the increase in fuel prices (avtur) which had touched the level of US \$ 86.29 per barrel in 2018 which is the highest level since December 2014. Rising world oil prices are exacerbated by the weakening of the exchange rate against the US dollar not only in Indonesia but also faced by other aviation industries in ASEAN countries.

In facing various challenges coupled with intense business competition with the large number of airlines as well as an increase in flight fares that have an impact on the choice of people to change land and sea transportation, especially those that occur in Indonesian airlines, demanding that every airline must have a reliable business

strategy to be able to survive in the midst of competition while still generating profits through good financial performance. This is a consideration for open airlines in five ASEAN countries which are included in the ten countries that are estimated to have the largest aviation industry market in the next twenty years in the Asia Pacific region according to IATA (2019), namely Indonesia, Malaysia, Thailand, Vietnam and the Philippines to determine the right business strategy so that it can bring the company to survive and produce good financial performance amid various challenges faced and intense competition.

In Indonesia, the decline in Garuda Indonesia's financial performance began in 2013 with a profit of US \$ 11.2 million, a decrease of 89.90% from 2012. The ups and downs of Garuda Indonesia profit and loss continued until 2018 and had decreased to 3421, 09% in 2014 with a loss of US \$ 371.9 million. Various strategies focused on Garuda Indonesia include Quantum Leap, Quick Wins Priorities and Sky Beyond (GIAA Annual Report, 2013-2018). On the other hand AirAsia Indonesia, which focuses on the LCC (Low Cost Carrier) strategy or a cost-effective strategy, recorded a loss in 2017 of IDR 512,961 million and increased in 2018 with a loss of IDR 907,025 million or an increase of 76.82% (Annual Report CMPP, 2017-2018).

Open airlines in Malaysia, AirAsia Group Berhad and AirAsia X, also suffer the same fate as AirAsia Indonesia. The focus of the strategy adopted by AirAsia Group Berhad, LCC (Low Cost Carrier) and coupled with digital airlines (digital flights) actually led to losses in 2008 of RM 496 million. Trying to rise from adversity, the AirAsia Group Berhad also succeeded in gaining success by earning profits in the following years even though the gains went up and down until 2018 (AIRASIA Annual Report, 2008-2018).

Thailand with its opening airlines, Bangkok Airways, Nok Air and Thai Airways International also experiencing

difficulties in facing the challenges. Through a focus on strategy in the form of brand awareness, network expansion and additional flight frequencies, Bangkok Airways was slightly more fortunate because it only experienced a decline in profit in 2017 of THB 846 million or decreased by 53.95% but again declined in 2018 by THB 264 million or 68.79% (BAE Annual Report, 2017-2018). More worrisome conditions are experienced by Nok Air, which has suffered losses every year from 2014-2018 through a focus on strategy on cost leadership. Thai Airways International also suffered a similar fate by recording a greater loss in 2014 of THB 15,573 million and managed to go down in the following year but rose again in 2018 with a loss of THB 11,569 million. The focus of an aggressive profit strategy, the effectiveness of human resources and digital technology applied to run the company's operations (THAI Annual Report, 2014-2018).

Open airlines in Vietnam, Vietnam Airlines have better financial performance because it only experienced a decline in profit in 2018 of VND 2599 billion, down 2.23% from 2017 through a strategic focus on network expansion, brand communication and marketing (brand communication and marketing) (HVN Annual Report, 2018). Cebu Air, a publicly listed airline in the Philippines, did not record a loss but only experienced a decline in corporate profits from 2011 of PHP 3,624 million and experienced ups and downs until 2018. The largest percentage of profit decline occurred in 2013 by 85.66% from 2012. The focus of the strategy adopted by Cebu is the Low Cost Carrier (LCC) (CEB Annual Report, 2011-2018).

The focus of the strategy adopted by each airline as a guide and direction in carrying out the company's operations has a different impact on the financial performance obtained. The right strategy will help companies to manage various challenges faced well in the midst of intense competition while considering increasing

profitability. Therefore a study was conducted to analyze the application of business strategies and financial performance in open airlines in five ASEAN countries.

Financial performance

Financial performance is a picture of the achievement of an activity carried out in measuring the goals, objectives, mission and vision of the planned strategic planning. Financial performance is the company's ability to manage and control the resources it has (Fahmi, 2014). The company's performance can be seen from profitability, return on investment (ROI), the company's main achievements, growth, innovation, rate of return on assets (ROA / ROE) (Suhartati, 2012). Returns can be interpreted as dividends derived from profits. Thus, profitability is always used as an important measure in determining company performance because the company's goal is to protect the capital that has been invested by shareholders (Tamalee et al. 2008).

Business strategy

Business strategy is the process of adjusting between the company and its market so that the company can find the right way to answer and meet the needs of current customers in the future. The company's success in aligning market needs is done through a consistent approach and is built in accordance with the competencies and resources of the company. Each type of business strategy adopted has a different impact on the company and there is no absolutely perfect strategy to implement (Miles and Snow 1994, in Bentley et al. 2015).

According to Porter (1981) competitive advantage can be achieved through a variety of strategies, one of which is the business strategy, either cost leadership, differentiation or focus. Companies that implement cost leadership strategies emphasize the importance of cost efficiency in the industry. This is because a company with a cost leadership strategy

emphasizes a higher efficiency ratio of asset utilization than a company with a product differentiation strategy. In implementing a differentiation strategy, companies must own and create unique products and services so they can attract the attention of buyers. The uniqueness offered by the company has its own market segmentation in the community, especially for buyers who like something unusual or different from the others. The advantage of using differentiation in addition to earning above average is the sensitivity of customers to low prices, differentiation products can create high entry barriers and the position of substitute products is also high (Porter, 1981).

In addition to the cost leadership strategy, differentiation and focus as proposed by Porter, there are also other business strategies according to the Miles and Snow (1978) approach, namely prospector, defender, analyzer and reactor. Prospector and defender are the most dominant strategies and very different strategies.

Prospector strategy is a strategy adopted by companies that focus primarily on innovation and creativity to create new products. The company always tries to be a pioneer in competition and is willing to compensate for internal efficiency to innovate and be creative. Prospector strategy companies continually look for new market opportunities to regularly conduct experiments in response to potential environmental trends that arise.

Defender groups always try to create strategies that can maintain the stability and survival of the company. The company is focused on efforts to achieve stability in the long term by maintaining its core business (core business) without making many strategic changes. Defender strategy companies are companies that have a narrow product domain. Top management in organizations that implement this type of strategy is very skilled at limiting its operational areas because it does not tend to look for new opportunities that come out of

its product domain. Therefore this strategic company rarely needs important adjustments in its technology, structure or operating methods but rather gives its main attention in increasing operating efficiency. Analyzer is a type of strategy implemented by companies by combining the type of prospector with a defender. Companies that implement analyzer strategies tend not to take risks in innovation, but still try to excel in winning in the market. Besides making changes by innovating, the company also relatively maintains the stability of its products in order to stay afloat in the market.

The fourth group is reactors that only focus on efficiency without considering changes in the environment. Companies with reactor strategies often perceive changes and uncertainties in the environment but are unable to respond effectively. This type of organization is less consistent about the relationship between strategy and structure. The typology of Miles and Snow's strategy can reflect the complexity of the environment facing organizations and organizational processes from various dimensions, such as

competition, market situation and response, consumer behavior, technology, organizational structure and managerial characteristics. While the orientation of strategy theory to Porter's typology only illustrates the behavior of market competition in general (Suhartati, 2012). If examined further, it can be seen that the prospector strategy proposed by Miles and Snow has similarities to the differentiation strategy proposed by Porter, both of which place more emphasis on product or service innovation in gaining a competitive advantage. The defender strategy is similar to a cost leadership strategy that emphasizes cost efficiency (Ittner et al. 1997).

Conceptual Framework

The research wants to see and analyze how much influence the implementation of business strategies and financial performance on open airlines in five ASEAN countries. In accordance with the description on the background of the problem, literature review and previous research, the conceptual framework of the research is compiled as follows:

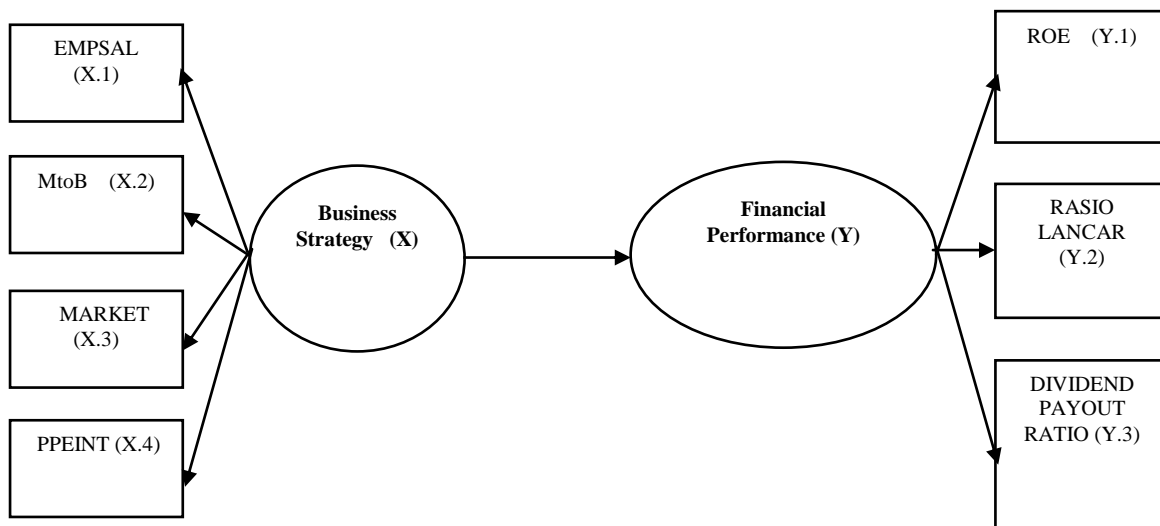


Figure 1. Research conceptual framework

Exogenous Variables

The exogenous variable in this study is business strategy (X). The definition of business strategy in this case is the strategy used by open airlines in five ASEAN

countries to manage and run company operations that are identified based on the ratios in the annual report and are categorized into a prospector, defender and analyzer strategy. According to Miles &

Snow (1978) that the prospector strategy is a strategy that develops new products and product innovations and utilizes market opportunities, defender strategy is a strategy that tends to maintain the market with a stable product and low prices and efficiency while the analyzer strategy is a strategy that implements between two types of strategies namely defender and prospector.

Endogenous Variables

Endogenous variables in this study are financial performance (Y). The definition of financial performance in this case is the work achieved by open airlines in five ASEAN countries to measure the level of success and success in doing business in terms of profitability ratios, liquidity and dividend payout ratios.

Hypothesis

H₀ = business strategy has no significant effect on financial performance

H₁ = business strategy has a significant effect on financial performance

RESEARCH METHOD

This type of research is included in the type of causal descriptive research is a study conducted to investigate the causal relationship by observing the effects that occur and the possible factors (causes) that cause these effects. The object of this study is the annual report of open airlines in five ASEAN countries published on the Indonesia, Malaysia, Thailand, Vietnam and the Philippines Stock Exchanges from the initial year of a decline in financial performance (both decreased profit and loss) until 2018. Population used in This research is an open airline company in five ASEAN countries which is included in the ten countries that have the largest aviation industry market according to IATA in the next twenty years, namely Indonesia, Malaysia, Thailand, Vietnam and the Philippines starting from the year the company conducts an IPO (Initial Public Offering) until 2018. The number of airlines is ten companies with the number of annual report years to be analyzed as many as 58. The research sample is taken with a non-probability sample approach with purposive sampling method, then the selected annual report year sample is 46 namely:

Table 1 Annual reports of companies that are research samples

| NO | COUNTRY | FLIGHT COMPANY | ANNUAL REPORT | AMOUNT |
|----|-----------|----------------------------|---------------|--------|
| 1 | Indonesia | PT Garuda Indonesia, Tbk | 2013 – 2018 | 6 |
| | | PT AirAsia Indonesia | 2017 – 2018 | 2 |
| 2 | Malaysia | AirAsia Group Berhad | 2008 – 2018 | 11 |
| | | AirAsia X | 2013 – 2018 | 6 |
| 3 | Thailand | Bangkok Airways | 2017 – 2018 | 2 |
| | | Nok Air | 2014 – 2018 | 5 |
| | | Thai Airways International | 2014 – 2018 | 5 |
| 4 | Vietnam | Vietnam Airlines | 2018 | 1 |
| 5 | Filipina | Cebu Air | 2011 – 2018 | 8 |

Source: stock exchanges of each country

Data analysis techniques in this study used the help of smartPLS 3 software by first testing descriptive statistics and normality of data before testing the inner models and hypotheses.

RESULT AND DISCUSSION

Data Normality Test

Normality test conducted in this study by looking at the significant number of the Kolmogorov-Smirnov test at a 2-tailed significant value with a significance level of 5% or 0.05. If the probability value $p \geq 0.05$, then the assumption of normality is met or the data is normally distributed, while if $p < 0.05$, the assumption of normality is not met or the data is not normally distributed.

Table 2. Kolmogorov-smirnov test normality test results on the indicator variable X on the indicator variable Y

| One-Sample Kolmogorov-Smirnov Test | | Roe (Y1) | Rasio Lancar (Y2) | Dpr (Y3) |
|------------------------------------|----------------|----------|-------------------|----------|
| N | | 46 | 46 | 46 |
| Normal Parameters ^{a,b} | Mean | .0000 | .0000 | .0000 |
| | Std. Deviation | .00214 | .44677 | .24782 |
| Most Extreme Differences | Absolute | .149 | .155 | .194 |
| | Positive | .103 | .155 | .194 |
| | Negative | -.149 | -.054 | -.115 |
| Kolmogorov-Smirnov Z | | .999 | 1.050 | 1.319 |
| Asymp. Sig. (2-tailed) | | .271 | .221 | .062 |
| a. Test distribution is Normal. | | | | |
| b. Calculated from data. | | | | |

Source: processed secondary data, 2019

Based on Table 2 the normality test results show that the value of p or Asymp. Sig. (2-tailed) on the ROE variable (Y1) of 0.271, the current ratio variable (Y2) of 0.221 and the DPR variable (Y3) of 0.062. This means that the third p value ≥ 0.05 so that the data is normally distributed.

Structural Model Test (Inner Model)

The structural model test (inner model) was conducted to see the relationship between latent constructs, significance values and the R square of the research model.

Table 3. Results of R square relationship between business strategy and financial performance

| | R Square | R Square Adjusted |
|---------------------------|----------|-------------------|
| FINANCIAL PERFORMANCE (Y) | 0.382 | 0.368 |

Source: processed secondary data, 2019

Testing the inner model based on Table 4.13 seen from the R square value of financial performance which shows a figure of 0.382. This means that the business strategy has an influence on financial performance of 38.2% and the remaining 61.8% is influenced by other variables not included in this study. However, due to the value of R square (0.382) ≥ 0.25 , the effect that the business strategy has on financial performance is weak (poor).

Hypothesis testing

This hypothesis test is performed on each type of business strategy that has been identified, namely the defender, analyzer and prospector of each financial performance indicator, namely ROE, current ratio and DPR. The results of testing the business strategy hypothesis on ROE can be seen in the following Table 4:

Table 4 Hypothesis test results of business strategy variables on ROE

| | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics ((O/STDEV)) | P Values |
|---------------------------|---------------------|-----------------|----------------------------|--------------------------|----------|
| DEFENDER (X) -> ROE (Y) | 0.365 | 0.054 | 0.621 | 0.588 | 0.557 |
| ANALYZER (X) -> ROE (Y) | 0.668 | 0.426 | 0.641 | 1.043 | 0.298 |
| PROSPECTOR (X) -> ROE (Y) | 0.710 | 0.274 | 0.592 | 1.198 | 0.231 |

Source: processed secondary data, 2019

It is known that the three T statistic values are < 1.96 , that is 0.588 in the defender variable, 1,043 in the analyzer variable and 1,198 in the prospector variable with a confidence level of 5%. This shows that the hypothesis is rejected (H0 is accepted and H1 is rejected) which means that of the three types of strategies applied by the airlines there is no significant effect on ROE (return on equity). This insignificant result was also seen earlier in

the descriptive test which showed the average value of ROE in the whole sample was negative, which means getting a loss so it can be said that the financial performance of the ROE indicator can be good not caused by the factor of applying the type of business strategy but there are factors others that were not discussed in this study. This is because in this study there was no significant effect on ROE even though any type of strategy was applied.

Hypothesis test results that explain the effect of business strategy on financial

performance of the current ratio indicator can be seen in Table 5 below:

Table 5. Hypothesis test results of business strategy variables to smooth ratio

| | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics ((O/STDEV)) | P Values |
|------------------------------------|---------------------|-----------------|----------------------------|--------------------------|----------|
| DEFENDER (X) -> SMOOTH RATIO (Y) | 0.581 | 0.138 | 0.726 | 0.800 | 0.424 |
| ANALYZER (X) SMOOTH RATIO (Y) | -0.483 | -0.221 | 0.582 | 0.830 | 0.407 |
| PROSPECTOR (X) -> SMOOTH RATIO (Y) | -0.619 | -0.551 | 0.252 | 2.455 | 0.014 |

Source: processed secondary data, 2019

Based on Table 5 it is known that the T value of the defender and analyzer strategy statistics on the current ratio is <1.96 at the confidence level of 0.05 which is 0.800 and 0.830 which means that the hypothesis is rejected (H0 is accepted and H1 is rejected). This shows that there is no significant effect between the defender and analyzer strategies on current ratio.

But things are different when seen in the T value statistic in the prospector strategy which is at number > 1.96 which is 2.455 which means the hypothesis is accepted (H0 is rejected and H1 is accepted). This indicates a significant influence between the prospector's strategy on current ratio. Companies with a prospector strategy are characterized by their interest in innovation and creativity because of the desire to be a pioneer and

excel in competition. This certainly requires a large capital for the company to innovate and does not rule out the possibility to make loans.

Significant influence between the prospector's strategy to the current ratio in this study means that the company manages a lot of its current assets to innovate coupled with the loans made but because the company failed to make a profit and not enough assets owned, the company's ability to pay off long-term debt in short quite low. This is because prospector-based companies generally show a current ratio of less than 1. The results of the business strategy hypothesis test on financial performance as seen from the dividend payout ratio (DPR) indicator can be seen in the following Table 6:

Table 6. Hypothesis test results of business strategy variables on the DPR

| | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics ((O/STDEV)) | P Values |
|---------------------------|---------------------|-----------------|----------------------------|--------------------------|----------|
| DEFENDER (X) -> DPR (Y) | 0.679 | 0.686 | 0.217 | 3.121 | 0.002 |
| ANALYZER (X) -> DPR (Y) | -0.415 | -0.226 | 0.534 | 0.778 | 0.437 |
| PROSPECTOR (X) -> DPR (Y) | -0.389 | 0.000 | 0.000 | | |

Source: processed secondary data, 2019

In Table 6 it is known that the analyzer and prospector strategies have a T statistic value <1.96 which means that the hypothesis is rejected (H0 is accepted and H1 is rejected). This shows the meaning that there is no significant effect between the application of the analyzer and prospector strategies on dividend payouts. But different results are shown in companies that implement a defender strategy that has a T value of statistics > 1.96 which is 3.121 which means the hypothesis is accepted (H0 is rejected and H1 is accepted). Although the analyzer and prospector strategies did

not show any significant effect, the defender strategy showed a significant effect on dividend payout.

This significant result can be interpreted that by implementing a defender strategy, the company's financial performance from the DPR's value can show better performance compared to companies that implement the analyzer and prospector strategy. This can be correlated because defender strategy companies tend to create stability strategies so that they can last for a long period of time and only focus on the core business they currently have so that the

desire to look for new opportunities is low unlike the prospector strategy that is always trying to innovate so that it requires costs tall one. Defender strategy companies generally pay more attention to efforts to improve process efficiency in order to reduce operational costs. This causes the profits derived by the company so that it can provide dividends to its shareholders.

Predictive Value

The predictive value of 46 sample annual report averaged for each airline calculated using the Springate model can be presented in Table 7 below:

Table 7. Results of predictive values from 46 sample annual report years for each airline

| No | Airline | Z Score | Explanation of Interpretation |
|----|----------------------------|---------|-------------------------------|
| 1 | Garuda Indonesia | 0.187 | Predicted bankruptcy |
| 2 | AirAsia Indonesia | (0.572) | |
| 3 | AirAsia Berhad | 0.531 | |
| 4 | AirAsia X | 0.026 | |
| 5 | Bangkok Airways | 0.473 | |
| 6 | Thai International Airways | 0.027 | |
| 7 | Nok Air | (0.233) | |
| 8 | Vietnam Airlines | 0.478 | |
| 9 | Cebu Air | 0.461 | |

Source: processed secondary data, 2019

In Table 7 above it can be seen that the overall predictive value or Z stands at ≤ 0.82 which means that the entire study sample averaged on each airline is predicted to go bankrupt. This bankruptcy prediction number has a greater chance on AirAsia Indonesia airlines because the Z value is the smallest of all airlines, namely (-0.572). This bankruptcy prediction can occur if the airline continues to implement an inconsistent strategy in carrying out operations.

CONCLUSION

Based on the results of the research that has been conducted along with the discussion, the conclusions that can be drawn are as follows:

1. There is no significant effect between the business strategies adopted by open airlines in five ASEAN countries, both the prospector, defender and analyzer

strategies on the company's financial performance from the ROE indicator.

2. Only companies with a prospector strategy had a significant effect on current ratios while open airlines in five ASEAN countries with a defender and analyzer strategy did not show a significant effect on the current ratio.
3. Only companies with a defender strategy have a significant influence on the dividend payout ratio (DPR) while open airlines in five ASEAN countries with a prospector and analyzer strategy do not have a significant effect on the DPR.

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