

The Impact of Restructuring on the Performance of Garuda Indonesia

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Garuda Indonesia is an airline company owned by the Indonesian Government. The airline has been going through two restructuring processes. This research paper is aimed to analyse the internal and external factors influencing the success of Garuda Indonesia in improving its performance after undertaking two restructuring processes. Both primary and secondary data were used in the analysis. 185 of 385 managers (57%) were selected from Garuda Indonesia businesses. Interviews and focus groups were conducted with 35 respondents, 23 were from the top management and 12 from the selected respondents. Structural equation modeling (SEM) was employed. The findings suggest that both external and internal factors have significantly influenced the performance of Garuda Indonesia. However, the external factor was the most significant variable in improving the performance of Garuda Indonesia.

Field of Research: Airline Management, restructuring, strategic fit.

1. Introduction and Background

The change in the business environment has played an important role in encouraging airlines to change their orientation. Airlines that are not able to adjust to a dynamic business environment are being left behind. The surprising fact is the bankruptcy of Japan Airlines (JAL) in 2010. A few years beforehand, Thai Airways International also faced similar problems caused by excessive government intervention.

The history of the airline industry in Indonesia could be grouped into three periods: (1) 1950-1967; (2) 1968-2001; and (3) 2002 until recently. The first period was initiated by the establishment of NV. Garuda Indonesia Airways (GIA) in March 31, 1950. During this period, the competition did not exist. There was only one other airline company, i.e. Merpati Nusantara Airlines (MNA). These two airlines were not established to create profits, but to support social and political interests.

The second period was colored by the rapid growth of private commercial airlines. The existence of private companies has changed the constellation of competition from mono- into multi-airlines, although airline tariffs were still regulated by the government.

Air transport services in Indonesia have had remarkable growth in the third period. This growth was triggered by deregulation through the Decree of the Ministry of Transportation No. 11 in 2001 on the Air Transportation Management. Many private airlines continued to operate and increase their aircraft numbers. Several private

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companies were successful in increasing their performance and going international. However, there were also many private airlines, which were not able to compete.

The total number of commercial air transportations in Indonesia has fluctuated every year. The number of non-scheduled airlines always exceeded the scheduled airlines. In June 26, 2009, the Ministry of Transportation terminated the license of 27 airlines (Damardono 2009a).

Apart from deregulation, the rapid growth of domestic airlines was supported by the abundance of cheap aircraft as a result of the World Trade Center (WTC) tragedy in New York on September 11, 2001. Many foreign airlines reduced their aircraft numbers and these aircraft were leased by Indonesia's private airline companies with very competitive prices. Recently, Indonesian airlines have become more aggressive in providing aircraft to serve their domestic or international routes.

With the increased number of domestic airlines, the market became more competitive and the price of air transport became relatively inexpensive. The total number of aircraft seats continued to increase. Lower tariffs have encouraged more people to use air transport compared to other transportation modes (land and sea transportations). The competitive climate has challenged domestic airline companies to adjust their business management in order to survive and grow.

Along with the development of domestic and international flights, Garuda Indonesia has experienced some complexities in its performance. Between 1993 and 1997, Garuda Indonesia was faced with difficulties in competing with other airlines. These problems were overcome by using appropriate tactics and strategies.

Garuda Indonesia experienced operation losses between 1993 and 1997. The annual losses were about 402 billion rupiahs or US\$ 169 million. These losses were accumulated from inefficient operations on most of the routes. Garuda Indonesia had losses from more than half of its 38 international flights, although it had dominated and monopolised domestic flights at that time.

This phenomenon showed that Garuda Indonesia was unable to adjust to the changing business environment, especially since the deregulation of the airline industry in 1978. Growing competition which commenced with the formation of Singapore Airlines, after being separated from Malaysia Airlines in 1972, was not matched with appropriate strategies by Garuda Indonesia. This could be the main cause of company's poor performance.

As a consequence of continued operational losses, Garuda Indonesia experienced negative cash flows. All of business aspects were affected and the payment of debts was halted. Total negative cash flows exceeded the operation losses, i.e. on average US\$ 280 million per year compared to US\$ 169 million per year. Under this circumstance, the company had insufficient funds to sufficiently finance operations. Consequently, product and service quality of Garuda Indonesia started to decline and the sales volume started to decrease. The seat load factor (SLF) was low, i.e. only 55 percent, and very difficult to increase. This percentage was far below the break-even point which was above 65 percent. Without sufficient SLF, each flight was inefficient and added to overall losses.

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Poor service quality and low on time performance (OTP) at the end of 1990s severely influenced Garuda Indonesia's image. OTP declined drastically to only 75 percent in 1997. Prior to 1997, Garuda Indonesia's OTP had always been above 80 percent. In addition, various infrastructures were not properly managed and repaired. These conditions decreased the quality of in-flight services. As a result of these factors, Garuda Indonesia's reputation declined in the eyes of its customers.

To solve negative cash flow problem, Garuda Indonesia management reduced costs by implementing a cost reduction program (CRP). The CRP limited Garuda's ability to maintain service quality. As a result, Garuda Indonesia was trapped in a vicious circle. The decline of operation and service quality had disturbed the company management norms. Various problems could not be solved because of a limited operational budget. Top management was not able to overcome these problems and lost their creativity. All initiatives and decisions were passed to the top management and this scenario created an ineffective management mechanism (Hitt, et al. 2005).

One of the most important aspects in any company performance is corporate culture. As a state-owned enterprise, Garuda Indonesia's employees were profoundly influenced by the government's bureaucratic environment. Attention to services was poor, since the operation of Garuda Indonesia was viewed as an air transportation industry and not as a service business. Many inefficient activities were tolerated. Inefficiency became obvious when route networks and aircrafts were reduced. Despite 13, 692 employees in 1997, productivity remained low.

Operation losses and negative cash flows created heavy financial burdens. To solve these problems, Garuda Indonesia management undertook various efforts including: (1) borrowing money from banks; (2) borrowing money from financial institutions by launching commercial papers; and (3) re-selling and re-renting several aircraft and engines. These efforts did not succeed in solving the financial problems. Debt, interest and interest payments increased significantly.

At the beginning of 1998, Garuda Indonesia's condition was critical. Performance had dropped dramatically and the company was in a debt default situation. Liquidation was soon to commence. The liquidation would create several negative impacts including job termination for more than 14,000 employees. In addition, the liquidation of Garuda Indonesia would sharply decrease the supply of domestic air transport.

Empirical evidence from other countries shows that airlines in the liquidation phase still have the potential to improve. Based on these facts, the Government of Indonesia decided to cancel the liquidation of Garuda Indonesia and commenced the task of improving the airline's management. A new management team was created in June 1998 with the initial task of restructuring.

The main objective of restructuring was to maintain Garuda Indonesia's function as a public service. Domestic market share for Garuda Indonesia was about 65 percent at the end of 1990s. This could not yet be replaced by other domestic airlines. It was felt that Garuda Indonesia should be maintained and expanded in order to fulfill the rapid demand for air transportation in the future. Restructuring was thus expected to restore the company's financial performance as a business entity.

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A company with an extreme declining performance such as that of Garuda Indonesia could be considered to be in a turnaround condition (Slatter and Lovett 2000). If improvement efforts are able to bring the company out of a critical situation to “normal”, then the turnaround process is considered a success. However, in Garuda Indonesia’s case, the turnaround process was not that simple, since the company was in a critical situation with limited resources to utilise. According to Pandit (2000), the degree of success of turnaround is only about 10-33 percent.

To optimally implement turnaround, fundamental changes were needed (Baker III and Duhamel 1997). A company experiencing declining performance is normally a company that is not able to adapt to a changing business environment. The substantial change in the airline industry since deregulation in various countries was the change in orientation from operations to a focus on the customer.

Turnaround was started by establishing appropriate strategies. Garuda Indonesia was required to adapt new strategies based on a suitable paradigm and various assumptions. These assumptions would limit the business management coverage and any implemented strategies (Johnson and Scholes 2002).

In practice, turnaround programs could improve efficiency by reducing costs and establishing a competitive price to increase revenue. Importantly, the company has to establish a position in the market in order to increase sales and subsequent profit (Baker III and Duhamel 1997). Based on market analysis and the company’s condition, Garuda Indonesia chose its positioning strategy, i.e. market segmentation of medium and high value customers. Improvement in service quality was the main priority in order to create a competitive advantage for Garuda Indonesia. It was hoped that through this strategy, company profit would gradually increase.

Appropriate strategies for a turnaround should begin with company restructuring. Restructuring requires an adaptation to the business environment and also a comprehensive change in the business and management. In Garuda Indonesia’s case, all employees were expected to change their mind-set, values and beliefs.

Garuda Indonesia chose *the leading change concept* which was developed by Kotler (1996). This approach was chosen because quick changes were required to achieve turnaround. The change processes were implemented and lead by the company’s leader who determined guidance and monitored the change processes.

The change in orientation from a bureaucratic focus to business (entrepreneurship) was crucial in determining the success of restructuring. Entrepreneurship principles were implemented into all Garuda Indonesia’s programs. By having this entrepreneurship orientation, employees were able to solve problems both creatively and innovatively. They were also capable of making effective strategic decisions. The first restructuring in 1998-2001 provided a positive impact. Within six months (June 1998 to January 1999), the company moved from negative operations through to the turnaround stage. Every subsequent year, until 2001, Garuda Indonesia achieved positive operational profits and “normal” operations.

However, with the management change in May 2002, the performance of Garuda Indonesia decreased again. Garuda once again suffered from financial losses in

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2003 and in 2004 experienced a huge financial loss. The company's performance returned to the situation before the first restructuring. Cash flow once again went negative and debt repayments were stopped. Commercial debts increased, especially for fuel supplies and airport service charges.

To overcome these problems, a new management team was assigned in March 2005. Prior to this, the Government of Indonesia as the owner of Garuda Indonesia had considered halting the operation and closing the company in order to stem further losses. But after having intensive meetings with the top management of Garuda Indonesia, it was concluded that there was a significant possibility of improving the company's performance.

The new management team undertook a second restructuring in 2005. The strategy used was relatively similar to the first restructuring. The second restructuring was successful in returning company orientation to a business focus. In addition, Garuda Indonesia operations were adjusted to the dynamic of an airline business environment. Since 2007, positive operational profit has been achieved with this profit increasing dramatically in 2008.

The purpose of this research paper is to analyse the internal and external factors influencing the success of Garuda Indonesia in improving its performance through two restructuring processes. The remainder of this paper is organised in four sections. The next section illustrates the literature review related to the airline industry, turnaround and restructuring process. The explanation of the methodology and research design is in the second section. This is followed by the discussion of findings. The final section sets out conclusion and limitation.

2. Literature Review

Considerable research exists on the management practices of different types of companies. However, research on airline management is very limited. Much literature on the implementation of management science in the airline industry is directed to analyse internal and external factors affecting the performance of the airlines. In 2003, the Center for Economic and Management at the University of Indonesia and the Transportation Research and Development Agency undertook studies on the competitiveness of national airlines. However, the study did not analyse the management of airline companies.

Dempsey and Gesell (1997) explain that in order to develop a strategic vision, an airline should be able to assess various internal and external factors. The opportunities should be captured, while the problems should be avoided. The internal factors influencing the performance of an airline include aircraft management, staff and operation management, corporate culture and working contracts, flight route structure, airport renting, maintenance facilities, market identity, consumer relations, and a combination between debt and equity. All those internal factors were related.

Meanwhile, the external factors include competition and market, economic cycle (inflation and recession), fuel price fluctuations, law problems, regulations, politics, travel bureau characteristics, and technology. The capability of an airline to anticipate the external factors is extremely important. Dempsey and Gesell (1997) have stated

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that change was the only constant variable in the airline industry. By that, the contingency plan is crucial. The management of an airline should be sufficiently flexible and adaptive in facing unpredictable events.

According to Shaw in Dempsey and Gesell (1997), successful airlines are marketing-oriented airlines. The main indicator of success is profit and customer satisfaction. Garuda Indonesia was in perilous condition between 1993 and 1997 and could be categorised as a failure company (Bibeault 1982). The other terminology used to describe a serious condition company is called a problem company (Chanda 2002) or a financially distressed firm (Gilson 2001). Several characteristics of serious condition company are: (1) company's capital is below 25 percent; (2) cash flow is not sufficient to pay deadline expenses; (3) production quality and quantity declines; and (4) the working environment is not conducive and with low motivation.

A turnaround process was needed by Garuda Indonesia. Barker III and Duhaime (1997) have analysed a turnaround process in the manufacturing industry in the USA. However, this research did not include service companies. The analysis used was the business-level change index and the domain change index. The business-level change index of a company is the quantity of management actions during the turnaround process. Meanwhile, the domain change index is the variation of management actions, such as acquisition, divestment, expansion, and operation contraction. Barker III and Duhaime (1997) conclude that (1) a company with a declining drastic performance requires a higher strategic change in the turnaround process; and (2) a company experiencing declining performance when the industry is growing also requires higher strategic change in the turnaround process.

Turnaround management has been studied by Scherrer (2003), also by diagnosing the business problems. Analysis was undertaken descriptively by observing company internal and external factors. As a result factors affecting declining company performance were identified. Based on internal and external causes, turnaround stages were seen to improve company performance. The turnaround stages include situation analysis, plan formulation, implementation, and stabilisation.

Turnaround issues were discussed in management literature at the beginning of 1980s. At that time, when the economy was rapidly growing, many companies faced failure or declining performance. This phenomenon challenged management experts to analyse empirical facts in order to find the key problems and appropriate formulae to improve company performance.

Pandit (2000) states that the turnaround could be defined as the recovery of a firm's economic performance following a declining threatening existence. Based on this definition, a turnaround consists of bad performance and performance improvement periods. Furthermore, Slatter and Lovett (2000) divide turnaround from transformation. A company is in a turnaround situation if declining performance has created a crisis condition. In a transformation situation, the declining performance does not reach the crisis condition.

Achieving turnaround is not easy, when a company is already in a crisis condition. Schendel et al. (1976) found that only 10 percent of 666 companies were successful in turnaround. Bibeault (1982) found 33 percent of 1,094 companies were successful,

while Hambrick and Schechter (1983) found 20 percent of 260 companies were successful in turnaround.

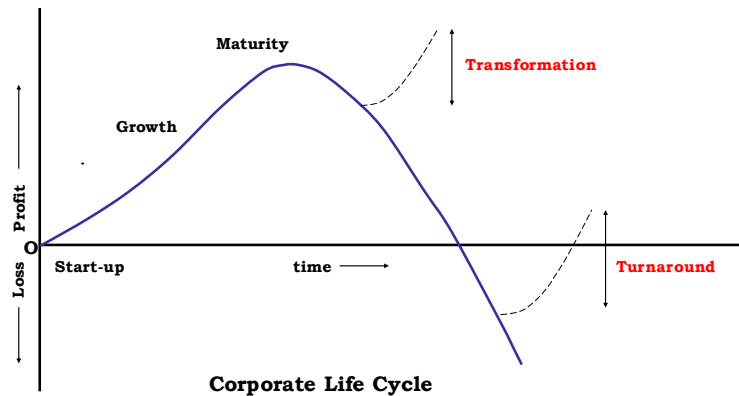


Figure 1. The Different between Turnaround and Transformation

Bibeault (1982) used the term “turn losers to winners”. A turnaround situation is not a normal period in a company’s progress. This situation requires unique and different management approaches. In a turnaround situation, many classical management principles are not valid. To better understand a turnaround situation, the management of a company should comprehensively understand the causes of declining performance. Both internal and external factors should be accurately observed. The external factors are economic change, dynamic competition, government constraints, social change, and technological change. Meanwhile, the internal factors are management, one man rule, management change, bureaucratic management, unbalanced top management, weak financial functions, and non-participatory top management.

According to Bibeault (1982), the key factor of a successful turnaround is a management of change which is highly influenced by leadership. This process should be supported by focusing on the core business, funding availability, and motivation improvement. On the contrary, several factors which could constrain the turnaround are ineffective management, bad turnaround strategy, insufficient financial support, and government interventions.

The other definition of turnaround was stated by Chanda (2000):

“Turnarounds are normally associated with near-terminally sick companies, whereas restructuring or reengineering are more appropriate definitions of timely interventions to save the company from reaching such a stage of sickness”.

Chanda emphasised the importance of human resource in determining the performance of a company. He stated that “businesses never fail, people do”. The change of mind-set among managers as the agent of change is the key of success.

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Similar to Bibeault (1982), Chanda (2002) has mentioned that the cause of a declining company's performance can be grouped into internal and external factors. Internal factors are bad management, inappropriate financial control, bad working capital management, high costs, weak marketing efforts, excessive trading, high scale projects, acquisition, financial policies, and organisational complexity. Meanwhile, the external factors include market demand change, competition, and abnormal commodity prices. There are seven components of a success turnaround, i.e. crisis stability, leadership, stakeholder's support, a strategic focus, organisational change, critical process improvement, and financial restructuring.

The airline industry is a service industry with the capital, labour, and fuel all intensive factors. This industry is also a danger industry by risking people's souls. As a consequence, the airline industry is highly regulated and requires the high skill levels of employees.

One of the main challenges in managing the airline industry is its dependency on incidences beyond management's control, such as a high fuel prices and market cycles. Demand for air transport is not only influenced by price factors, but it is also influenced by recessions, inflation and consumer expenditure or derived demand (Dempsey dan Gesell 1997). Furthermore, many airlines are still dominated by government policies and interventions.

Garuda Indonesia's business has always been affected by various direct and indirect government interventions. These interventions are basically a part of the political economic. At the international level, airline industry policies vary. For example, policies in USA are pro consumers and competition, although, Dempsey and Gesell (1997), Hanlon (1999), and Doganis (2001) stated that, in practice, those policies were actually not pro consumers and competition.

According to Banfe (1992), there was a fundamental change in airline business management in the USA after deregulation in 1978. Prior to this, airline management focused on operation activities. After deregulation, management focus changed to consumer interests. The competition climate requires an advanced marketing concept. An airline should be managed more professionally with the utilisation of new yield management techniques and methods.

As a service industry, airlines are faced with different constraints compared to the manufacturing industry. Firstly, the output of an airline (seats) cannot be stored to adjust to fluctuating demand. Secondly, the airline service is produced and consumed at the same time. Thirdly, the consumers participate in service delivery. The short- and long-term market cycles play important roles in airline economics. Air transport demand is very cyclical where increased or decreased demand is highly dependent upon market fluctuations. For instance, tourism travel is up during the school holiday season. During this period, airlines enjoy high seat load factors.

The airline industry is also sensitive to the business cycle, especially the economic performance, which is closely related to individual income and GDP. When economic growth and consumer trust are high, the demand for air transport is also high. This is reflected in load factor improvements. This improvement will increase yield and profit for the airline. On the other hand, when an economy is in recession, unemployment

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is high and consumer trust is down. As a result, load factors, yield, and airline profit are also down. During a recession period, the performance of a declining airline is more pronounced than the economic performance.

Air transport is classified as an intermediate good. A passenger is not flown for that purpose only, but to visit a place or do something. For example, passengers are flown for business trips, educational purposes, medical check-ups, or to visit families or tourist destinations.

Fixed costs dominate the expenditure of an airline, while variable costs are relatively low (less than 25 percent). Another way to measure cost is the passenger basis. Although the numbers of passengers decrease, a higher load factor will produce lower costs per passenger. A bigger aircraft with a longer flying distance and higher passenger's density will provide lower costs when compared to a flight undertaken by a smaller aircraft with a shorter flying distance and smaller passenger numbers.

Airline conditions under deregulation were studied by Kahn (1971) in Dempsey and Gesell (1997). Fixed costs dominated variable costs with a ratio of four to one. The competition on network developments increased and this lowered the price to variable cost ($P \approx VC$). The airline industry had experienced excessive capacity and losses for long periods. The market for the airline industry was uncertain with an increasing return to scale characteristic and fixed and sticky capacity. Capacity often exceeded the demand and there were also unavoidable fixed costs. Consequently, the cost of unsold inventory products became extremely high.

In the airline industry, profit margins are relatively tight. Revenue comes from tickets, cargo and documents, in-flight amenities (telephone or duty free), non-flight services (frequent flyer, mileage, group handling, maintenance, and management services), non-operational revenues (interest), and vertical integration (booking fees). The primary costs include labour remuneration and incentives, fuel, maintenance, rents, commission and distribution costs, meals and drinks, landing costs, advertising, and interest. The method for determining costs were based on flying operations, aircraft services, sales and promotion, maintenance, administration and general costs, and depreciation and amortization.

Airline profits fluctuate. On average, the profit of airline companies in USA was about 3.1 percent in the period of 1955-1960 and declined to 2.7 percent in 1961-1970. Profit declined to 2.0 percent during 1971-1980 and -0.3 percent during 1981-1990. In the period 1991-1995, profit decline reached the bottom, i.e. on average -1.6 percent per year.

Unlike previous research, this research focused on factors affecting the increasing performance of Garuda Indonesia. These factors are both internal and external factors. The internal factors were related to the two restructurings undertaken by Garuda Indonesia, i.e. in the period 1998-2001 and 2005-2008. The restructuring process would be considered successful if Garuda Indonesia was able to show signs of a turnaround. More specifically, the internal factors in Garuda Indonesia include strategic fit, leading change, and entrepreneurship orientation. Meanwhile, the external factors were identified as suggested by Banfe (1992), Dempsey and Gesel

(1997), Doganis (2001), Hanlon (1999), and Holloway (2002). The airline industry was unique and exhibiting different characteristics compared to other industries.

3. Methodology and Research Design

Primary data were taken from a survey, interviews, and focus group discussions (FGD) with the representative managers and top management of Garuda Indonesia. Qualitative data gathered from a survey was then quantified. Secondary data consisted of the financial and operational performances of Garuda Indonesia. The financial performance included revenue, debt and profit; while the operational performance included on time performance (OTP), seat load factor (SLF) and yield.

From a total of 325 Garuda Indonesia managers, 185 respondents, or almost 60 percent, were selected using a purposive sampling approach. These respondents were selected based on their knowledge of the problems in the period of 1993-1997 and 2003-2006. Some of these respondents were also involved in the restructuring processes during 1998-2001 and 2005-2008. As for the interviews and FGD, 35 senior managers and members of top management were selected.

Based on the literature review, interviews and FGD, there were internal and external factors influencing the performance of Garuda Indonesia. The internal factors were three variables, i.e. leading change, strategic fit, and entrepreneurship orientation. Those variables were represented by different indicators. The external variable was described by three indicators, i.e. economic performance, fuel price, and competition in the airline industry.

The main tool used in the quantitative analysis was structural equation modeling (SEM). Before utilising SEM, data behavior was verified by using a validity test (bivariate Pearson or Pearson correlation) and a reliability test (Cronbach's alpha).

The basic regression model developed for the SEM analysis is as follows:

$$Y_i = \delta_1 X_{1i} + \delta_2 X_{2i} + \delta_3 X_{3i} + \delta_4 X_{4i} \quad (1)$$

where:

Y_i = performance of Garuda Indonesia

X_{1i} = strategic fit

X_{2i} = leading change

X_{3i} = entrepreneurship orientation

X_{4i} = external factor

Table 1. SEM Variables and Indicators

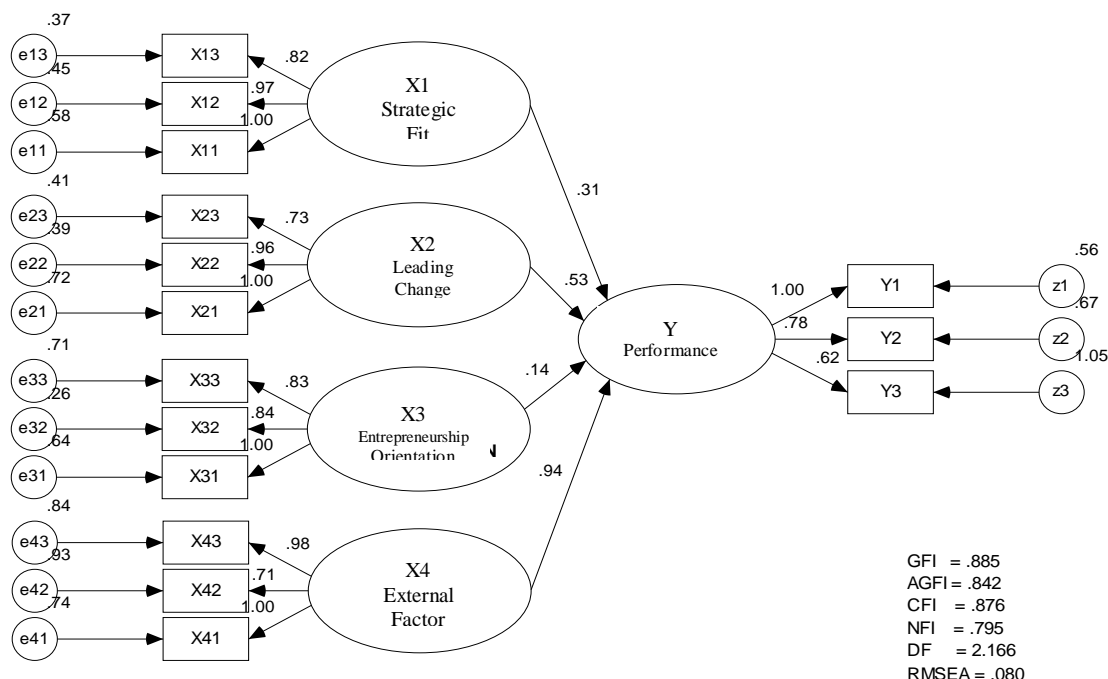
No.	Variables/Indicators	Description
1.	Y	Garuda Indonesia Performance
1.1.	Y1	Operational Management Improvement
1.2.	Y2	Corporate Culture Improvement
1.3.	Y3	Consumer Relation Improvement
2.	X1	Strategic Fit
2.1.	X11	Corporate Value Improvement
2.2.	X12	Company Positioning
2.3.	X13	Business Environment Adjustment
3.	X2	Leading Change
3.1.	X21	Anticipatory Leader
3.2.	X22	Motivated Leader
3.3.	X23	Inspiring Leader
4.	X3	Entrepreneur Orientation
4.1.	X31	Initiative and Risk Taking Ability
4.2.	X32	Risk Management and Problem Solving Ability
4.3.	X33	Self Confidence and Enthusiastic
5.	X4	External Factor
5.1.	X41	Economic Performance
5.2.	X42	Fuel Price
5.3.	X43	Airline Industry Competition

4. Discussion of Findings

Based on the empirical analysis, internal and external factors influenced the performance of Garuda Indonesia simultaneously. Both factors were thus included together in the SEM. The internal factors have had a direct impact on the Garuda Indonesia's performance, while the external factors have had only indirect influences. The economic condition influenced the performance of Garuda Indonesia through low consumer income and demand for air transport services. In addition, the world fuel price influenced the performance through operation variable costs. Further, the level of competition also impacted Garuda Indonesia's performance on the demand side. Research findings suggest that the higher the level of competition in the airline industry, the greater is the challenge faced by Garuda Indonesia in increasing their market share.

The model specification test has shown that there were two test criteria providing good results, i.e. (degree of freedom) DF and root mean square error of approximation (RMSEA). DF value produced from SEM estimations was 2.166 and the RMSEA value was 0.080. Meanwhile, the value of goodness of fit index (GFI), adjusted GFI (AGFI), and normed fit index (NFI) were close to fit criteria. In addition, all Cronbach alphas of the constructs used in the model were higher than 0.70. This suggests that the constructs used in the model were reliable and consistent as an estimation tool.

Figure 2. The SEM of Garuda Indonesia



Source: Primary data analysis.

There were several relationships identified between variables in the model after the outliers were removed. The standardised regression weights (Table 2) have shown that both internal and external factors have had significant impact on the performance of Garuda Indonesia. The external factor (X4) was found to be the most significant variable in influencing Garuda Indonesia's performance (Y). The next most significant variable was the leading change (X2) followed by the strategic fit (X1). The last variable was the entrepreneurship orientation (X3).

It was also found that the most appropriate indicator to represent the performance of Garuda Indonesia was the improvement of operational management (Y1). The second rank indicator was the corporate culture improvement (Y2), followed by the consumer relation improvement (Y3). These findings imply that the Garuda Indonesia management should focus more on operational management in order to have a better picture of the performance.

For the strategic fit, it was found that the most suitable indicator was the company positioning (X12). This finding is an empirical clarification of the Garuda Indonesia strategy which has been emphasised on the middle-up class of consumers. Garuda Indonesia has also established its position as a full service airline.

The next indicator was the business environment adjustment (X13) and the corporate value improvement (X11). The most significant indicator to describe the leading change was the motivate leader (X22). This indicator was more suitable than the anticipatory leader (X21). Meanwhile, the inspiring leader indicator (X23) was found to be in third place. The other internal variable, i.e. entrepreneurship orientation, was mainly described by the ability of risk management and the problem solving indicator (X32). The following indicators were the initiative and risk taking ability (X31) and self

confidence and enthusiastic (X33). As for the external factors, the primary indicator was the economic performance (X41) and followed by the airline industry competition (X43) and the fuel price (X42).

Table 2. Relationships between Variables in the SEM of Garuda Indonesia

Relationships between Variables	Estimation of Coefficients
Y ← X1	0,214
Y ← X2	0,389
Y ← X3	0,138
Y ← X4	0,885
X11 ← X1	0,654
X12 ← X1	0,687
X13 ← X1	0,663
X21 ← X2	0,636
X22 ← X2	0,731
X23 ← X2	0,624
X31 ← X3	0,769
X32 ← X3	0,847
X33 ← X3	0,684
X41 ← X4	0,725
X42 ← X4	0,553
X43 ← X4	0,693
Y1 ← Y	0,787
Y2 ← Y	0,675
Y3 ← Y	0,501

Source: Primary data analysis.

Theoretically, the internal factors of an airline were structure, process, behavior, and human resource aspects. The internal environment was designed to emphasise the company's position in the industry. According to Banfe (1992), there are two internal strengths inside the organisational structure of an airline, i.e. the macro- and micro-environments. The first strength aimed to optimise market opportunities by providing sufficient infrastructure to facilitate management actions in implementing plans and achieving company goals. The second strength was indicated by job divisions in the implementation and day to day operations.

It was also found in this research that the character of a leader was crucial in determining the success of an airline. It has been proved that suitable leadership was able to bring Garuda Indonesia to achieve a positive performance. On the contrary, inappropriate leadership had plunged the company to misery. Garuda Indonesia's experience has provided a valuable lesson that suitable leadership was a necessary condition. A leader should be able to formulate a strategic fit and implement it consistently according to the company's vision and mission. The leader should also be capable of transferring new company values to all employees and be able to continuously undertake adaptive efforts to anticipate changes in the business environment.

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Not only Garuda Indonesia, but all types of organisations or companies need a strategy. A fit strategy will bring these companies to achieve their optimum goals. However, each company should have a specific strategy based on resource availability and the challenges faced. For the majority of airline companies, Banfe (1992) suggested that “a strategy plan is the allocation of resources, over time, that will optimise the position of the airline and maximise profitability. A strategic plan requires a definition of the ultimate goals, a time frame and targets to measure the progress, and an implementation description.

The business strategy of Garuda Indonesia focused on the adaptation to differing changes in the business environment. The Medium term strategy (3-5 years) was divided into tactical plans in the shorter period (one year).

The implementation of strategy in an airline company like Garuda Indonesia is heavily influenced by internal and external interests. Potential bias in the strategy implementation is determined by the manager’s beliefs, the corporate culture, and intuition. Furthermore, a company leader is quite often challenged by various trade-offs, such as: (1) increasing market share vs new market development; (2) profit making vs market share; (3) short-term dividend vs long-term profit; (4) profit motives vs social motives; (5) high risk vs low risk; (6) dynamicisation vs stabilization; (7) debts vs equity; (8) quality vs profit; (9) market leader vs market follower; and (10) low profile vs high profile.

Garuda Indonesia spelled out its business strategy with an annual operational plan consisting of eight components as follows: (1) market planning; (2) sales estimation; (3) schedule planning; (4) aircraft planning; (5) price planning; (6) revenue planning; (7) financial planning; and (8) maintenance planning. The management realises that their strategy is not a shopping train, equipped by various scientific techniques. In addition, the strategy is not an absolute formula for business decision making processes. Rather, this fit strategy consists of analysis, bias, assessments, and sometimes predictions. Banfe (1992) suggests that “strategic planning does not substitute for judgement or science for managers. The process is an art form, far afield from the laboratory”. A strategy is thus not a way to eliminate or minimise the risks, but rather a method of providing various alternatives for management.

Most large airlines formulate their strategies by initially recognising the key factors affecting success in the industry. Those key factors may include a healthy balance sheet, cutting edge technology, commoditisation and customer mix, cost controls, and alliance network and management (Heracleous et al., 2006). Airline alliance strategies have been used by most of the large world airlines since the 2000s. After the second restructuring, Garuda Indonesia also moved to be involved in an alliance strategy.

An entrepreneurship orientation has also played an important role in supporting Garuda Indonesia in achieving high performance. This variable is important because capabilities and competences alone are not sufficient for the performance improvement. It should be completed by an appropriate entrepreneurship orientation. If the entrepreneurship has been mentally digested by all Garuda Indonesia’s employees, then the competitive advantages would be maintained through the optimum utilisation of the company’s resources.

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Recently, there has been a tendency for innovate efforts to be undertaken by certain full-service airline only, such as the Singapore Airlines. Other airlines have tended to be passive or slow in undertaking changes to fulfill consumer demand. On the reverse, many medium-service airlines and low-cost carriers, like AirAsia, have been quite aggressive in conducting different types of innovation.

There are different answers to the standard questions relating to innovation in the airline industry. These differences are based on the shift of challenges faced by airlines as well as the increase in consumer needs. For instance, in the past, every airline would seek to serve all public segments for their customers. Today, customers are divided into various target market segments.

Garuda Indonesia should be able to adopt these changes by encouraging brilliant ideas among its employees. Based on the steps developed by the Boston Consulting Group, the first step is the acknowledgement of new ideas in the innovation portfolio of a company. Then, the new services or products are developed and launched. This step is not simple and requires strong leadership and participation of all company components. The technical aspects of the services and products should be developed. If the products and services are successful, then the next step is to develop supporting infrastructure and undertake training and development to improve the employee capabilities. After this step, the products and services are ready to be launched in the market. The launching activity should be followed-up by intensive marketing and sales strategies to enable market penetration.

External factors include economic performance, fuel prices and airline industry competition. These three factors were beyond the control of Garuda Indonesia management, but they should be anticipated. The empirical findings suggest that until the beginning of 2000s, Garuda Indonesia was not able to adapt to the changing airline environment. By having the national flag carrier status, and with excessive support from the government, Garuda Indonesia faced many problems and challenges in open competition with other airlines.

Economies will always tend to fluctuate. The impact transition will occur through the economic activities and people's income capacity. When an economy is in crisis or recession, economic activities and people's disposable income tend to decrease. The need to conduct business by air transport declines. Furthermore, consumers also tend to reduce travel for non-business purposes, including tourism.

However, when an economy is growing rapidly, economic activities and transactions are high. In such a scenario, air travel for business purposes tends to increase. Additional disposable income also encourages consumers to travel for tourism and other purposes. The demand for airline services therefore increases sharply.

An analysis of the demand for airline services is quite complex. Several factors are at play including aircraft seats, which have no value if empty (perishable nature of seats) and the highly cyclical and seasonal nature of the industry. Aircraft seats cannot be stored. To solve this problem, airlines implement a price discrimination strategy by offering certain price ranges in each flight. This is also the strategy implemented by Garuda Indonesia. However, a price discrimination strategy is often applied as a destructive price competitive tool by many airlines.

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Since air transport demand is seasonal and cyclical, behavior is relatively easy to anticipate. Demand occurs regularly in the same periods each year. For example, peak seat demand takes place during holiday seasons such as school holidays or at the end of the year. But, there are challenges in planning appropriate aircraft supply in order to avoid over capacity outside the peak season. An airline is considered to be operating at full capacity if the utilisation rate is about 70-75 percent.

Cyclical demand has provided bigger challenges to Garuda Indonesia management. At the bottom of business cycle, high fixed costs influence the company's financial performance. Conversely, at the top of business cycle, most of the airlines will undertake an expansion strategy by buying new aircraft, recruiting more employees, or promising a bonus package to maintain experienced employees.

All airlines, including Garuda Indonesia, have experienced the difficult task of planning aircraft provision to meet increased demands. One wide body jet will cost more than US\$ 200 million and its use will span over long periods. With the maximum operational years of an aircraft being between 25-30 years, an airline must plan to buy new aircraft with a 30 year perspective. This long-term perspective challenges the airline in the competition, since during these long periods, there will be many changes in regulations, operational conditions and in the business environment. If an airline has borrowed to buy the aircraft, then risks will be even higher.

The performance of an airline is sensitive to the fuel price. This direct variable cost has a significant proportion of the total cost of running an airline. Any increase in the fuel price will increase the operational cost of the airline. Most airlines will compensate for the increasing fuel price by increasing ticket prices. This is usually because any immediate an efficiency in the operational cost components is quite limited. Any extreme cost cutting efficiency may risk service quality and flight safety. An increased ticket price, according to demand theory, will reduce the demand for air transport services.

The problems created by the economy and fuel price fluctuations have become more complex to Garuda Indonesia with the rapid growth of private airlines. This competition tends to be more intensive, since in general, private companies are undertaking continual expansion by utilising various strategies. One of these obvious strategies is very low ticket pricing. Private airlines are usually very aggressive in developing networks and adding profitable flight routes. Garuda Indonesia has also competed with several foreign airlines in certain domestic routes. Garuda has chosen to be a full service airline, while most private airlines are categorised as medium services airlines and low cost-carriers.

Empirically, the competition has increased the service quality provided by Indonesian airlines. Besides the number of air services, accessibility is also higher with additional flight frequencies and networks to many cities in Indonesia and abroad. Service reliability and on-time performance have also improved, although there are many uncontrollable factors including the weather and air traffic control. The technology used is now generally more advanced and yield management has improved. Passengers can now experience the highest service class with the most recent innovations like bed-like seats, entertainment such as television monitors in each seat, and several other high class services.

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In performing services, there are external constraints or challenges impeding the performance of Garuda Indonesia, i.e. government interventions and other groups which have an economic interest in Garuda's businesses. According to Sugiharto, the former Minister of State-Owned Enterprise Republic Indonesia, the government always intervenes in Garuda's management and businesses. This has constrained Garuda Indonesia efforts to change its business orientation from a national flag carrier into a globally competitive operation. For example, Garuda Indonesia has purchased more expensive aircraft than it should have. In addition, there are private companies which have used various political approaches to overtake Garuda Indonesia. In many of these occasions, the top management of Garuda Indonesia has submitted a resigning letter to the Minister of State-Owned Enterprise.

Furthermore, Sugiharto mentioned that the restructuring itself was implemented under political support, and was not based purely on business and management decisions. In practice, the Minister of State-Owned Enterprise and the Director General of Air Transportation actively assisted the management of Garuda Indonesia in various meetings with the European Credit Agency (ECA) - the ECA, being the primary creditor for Garuda Indonesia. This high level bureaucratic involvement is effective in convincing the ECA and the other credit agencies to support the recovery process and in the subsequent performance improvement of Garuda Indonesia.

However, the government is not always on the side of either Garuda Indonesia or the national airline industry. The open air policy, for example, is not an appropriate policy. This policy provides generous opportunities for foreign airlines to develop their route networks in the domestic airports surrounding Indonesia. This freedom will not only increase domestic competition, but more importantly, will threaten the national security. Even in advanced countries like the USA, a foreign airline is not allowed to serve domestic routes. Every foreign airline is only allowed to land in one airport inside the USA and is not allowed to fly to other cities within the country.

In the airline business, government intervention is common practice in many countries, especially with international routes. The motivation behind these interventions is related to national pride, the important role of air transportation, national security, and passenger safety. The government interventions in Garuda Indonesia are a logical consequence of Garuda being a state-owned enterprise. This phenomenon does not only occur in Indonesia, but also in many other countries. For instance, Olympic Airways, an airline owned by the Government of Greece, is famous for Greek government intervention.

5. Conclusion and Limitation

Restructuring was undertaken in 1998-2001 and 2005-2008. These two efforts enabled Garuda Indonesia to twice produce turnaround phenomena, each time improving the company's performance significantly. The first turnaround took place in 1999 and provided an operating profit of 135.5 billion rupiah. The second turnaround occurred in 2007 and succeeded in creating a profit of 221.1 billion rupiah.

After struggling with the two restructurings, in 2008, total operational profit of Garuda Indonesia climbed to a healthy 1,187 billion rupiah. This profit was derived from revenue passenger kilometers (RPK) of 15,395 million and yield of US\$ 9.5 cents.

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Meanwhile, the non-financial performance was shown by Garuda's overall seat load factor (SLF) of 76.5 percent and the on-time performance (OTP) of 83.85 percent. In addition, Garuda Indonesia was awarded *The Best Service Airline award* and *The Company with the Best Corporate Image award*. At the end of 2009, Garuda Indonesia's rating reached Four Star Sky Track in service quality based on international standards. This rating was only awarded to 26 airlines in the world.

This research has proved that the external factor was the most significant variable in improving the performance of Garuda Indonesia. From the three indicators, the economic performance was the most valid indicator in describing the external factor. The other indicators are the airline industry competition and the fuel price.

The leading change was found to be positive and significant in influencing Garuda Indonesia's performance. This finding suggests that the changes and leadership are crucially required in implementing a success strategy. The motivated leader is the most fit indicator in representing leading change in Garuda Indonesia. The next indicators are the anticipatory leader and the inspiring leader, respectively.

The strategic fit is also positive and significant in influencing the performance of Garuda Indonesia. Positioning was found to be the most suitable indicator to explain the strategic fit. The two other indicators include the business environment adjustment and the corporate value improvement.

Finally, the entrepreneurship orientation has a positive and significant impact on Garuda Indonesia's performance. Among three indicators, the ability to manage risks and problem solving is the most appropriate indicator in representing entrepreneurship orientation. The initiative and risk taking ability indicator is in the second place and followed by self confidence and enthusiasm.

The model developed in this research could be used to improve the performance of other airlines with similar characteristics and conditions. Furthermore, the model and findings could be utilised by non-airline companies as long as the problem characteristics are similar.

Empirically, this research has also found that government interventions have had negative impact on the performance of Garuda Indonesia. The restructuring programs were found to be successful if management could be released from the various kinds of interventions that took place.

Certain limitations of this research should be taken into account when interpreting the findings. First, the relatively small sample size when undertaking SEM is likely to limit generalisation of the results. Second, the data used in this research was cross sectional data, and it may limit the interpretation of the findings. To increase generalisability of findings, future research may choose to use a broader based sample and a panel data to better see the impact of the restructuring processes across different times.

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