



A macro-environment approach to civil aviation strategic planning



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ARTICLE INFO

Available online 3 April 2014

Keywords:

Macro-environment
Civil aviation
Strategic planning
SEM

ABSTRACT

Air transport is considered a cyclical industry sensitive to the macro-environment in which it operates. As aviation policy makers and regulators strategically plan for their future, they need to consider the systematic and synergistic effects of common factors which comprise the operating environment of the industry's organisations. Thus, during the process of aviation systems planning governments should perceive the generic conditions which exist in the economy as a whole as equally important to air transport exclusive conditions. This paper highlights the significant impact of the national macro-environment factors on a country's air transport sector and it suggests including these elements within the context of civil aviation strategic planning. Country level data is collected on seventeen input variables versus four output variables on a sample of 52 countries. Structural Equation Modelling (SEM) is used to identify the descriptors with significant impact on air transport output, namely: passenger traffic, aviation total contribution to GDP, aviation total contribution to employment and air connectivity levels. The identified significant drivers are found to create an enabling environment that determines the capacity of an economy and society to benefit from the air transport system's productivity. The results call upon aviation policy makers and regulators to assess the national macro-environment forces during the situation analysis part of the strategic planning process. The identified operating environment conditions act as a framework for providing clear policy orientations and for facilitating the identification of areas where policy intervention could improve air transport sector's performance. A well-defined aviation strategy allows aviation policy makers to identify and address nation wide strategic issues and provides aviation industry's stake holders with guidelines to help maintain and enhance their competitive position in both domestic and global markets.

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1. Introduction

There are numerous definitions describing what strategy is. Like many other concepts in the field of management, there is no agreed, all-embracing definition of strategy (Burnes, 2004). Even one of the pioneers of business strategy, Ansoff (1965) warned that strategy is an elusive and somewhat abstract concept. However, within the management and administrative context, strategic planning is a contemporary concept, identifiable within both the corporate and public arenas (Young, 2001) and defined as a formalized procedure to produce an articulated result in the form of an integrated system of decisions (Mintzberg, 2000). The literature points out that government agencies do in fact benefit from the strategic planning process mainly because the development of multi-year policy plans links

present situations or circumstances to a more meaningful vision of the future (Koteen, 1989; Nutt and Backoff, 1995; Young, 2001).

It is generally agreed, in both theory and practice, that the common steps involved in a strategic planning process are: (1) development of mission and vision; (2) environmental scan which includes an internal scan of the strengths and weaknesses and an external scan of the opportunities and threats; to reach (3) strategy formulation (Fig. 1). Besides, every strategic plan incorporates an “environmental scan” approach to the entity under study. The environmental school of thought¹ places a significant weight on the macro-environment forces outside the organization. According to this school, the environment plays a central role in the formation of strategy to the extent that the organization becomes subordinate to the environment (Mintzberg et al., 1998).

Nowadays, with such rapid shifts in the normal operating environment, there is an increased need for strategic planning

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¹ More information about different schools of thought in strategy formation is available in Mintzberg et al. (1998).

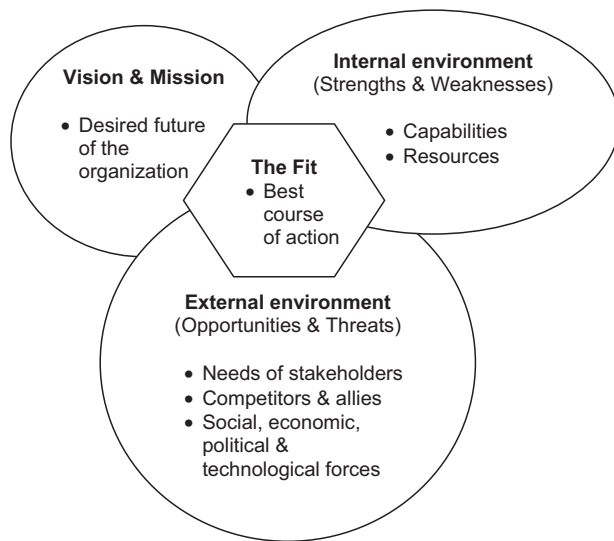


Fig. 1. Strategic planning model.
Source: (Barry, 1997)

for tackling uncertainty and identifying key issues which will determine the future behaviour of the entity under study. However, in an ever-changing industry like the aviation industry, the outside forces such as: emerging markets, economic fluctuations, technological advancements, regulatory trends, political and security instability and other factors, often form the basis for this uncertainty. As for civil aviation strategic planning, it is invariably the role of the government to design the future of its aviation sector. In this case, a strategic planning process enables, for instance, the civil aviation policy makers and regulators:

- to identify the key factors which influence the performance of the sector;
- to ascertain the challenges and opportunities that present themselves;
- to understand clearly the current state of the national air transport sector;
- to determine desirable future outcomes—such as boosting the social and economic contribution of aviation; and
- to draft the required policies to attain these outcomes—by following a more liberal air transport policy and encouraging private sector participation in the investment in, or procurement of, the aviation infrastructure.

Applying a strategic planning framework from the industry regulators' perspective is largely consistent with, and comprises, the traditional strategic management process which includes environmental scanning, strategy formulation, strategy implementation, evaluation and control (Ricks and Woods, 1996; Thompson et al., 2004; Porter, 2004). However, the application of these management tools varies substantially because fundamental differences exist between the situation of a firm and that of an industry (Lyford et al., 2002).

This paper focuses on civil aviation strategic planning and examines the first step within the traditional strategic planning process—the environmental scan. It answers the following question: What are the national macro-environment factors with a significant impact on air transport output? In Section 2, the paper looks into the factors of national competitiveness and selected socio-economic indicators, as building blocks of the aviation sector operating environment, then in Section 3 assesses the significant impact of these factors on the air transport industry's performance by analysing a sample of 52 countries. Structural Equation Modelling (SEM) is

employed to examine the correlation and dependence relationships among multiple variables. The aim of this analysis is to identify macro-environment variables which are significantly correlated with the national air transport sector output. The results provide evidence for the existence of this correlation that has implications for air transport policy orientation. The conclusion given in Section 4 calls for more coordination in aviation systems planning on a national level so that air transport policy is then placed within other national policies (e.g. trade, tourism and social policies) oriented for national growth and competitiveness.

2. Influences of national macro-environment variables on the air transport sector

The macro-environment consists of broad conditions that exist in the economy as a whole, rather than in a particular sector. The number of possible strategic variables in the general environment is enormous. Various authors, such as Fifeild and Gilligan (2000) and Henry (2010), have listed those variables in different ways, the most notable being the PEST framework of the macro-environment which is an acronym for political/legal, economic, socio-cultural and technological variables. Generally, strategic planners consider these variables as part of the environmental scanning to better understand the threats and opportunities created by those factors and how strategic plans need to be adjusted so that firms or sectors can obtain and retain competitive advantage. The macro-environment in which a firm or sector operates will influence its performance, and the amount of that influence will depend on how much of the sector's businesses are dependent on the health of the overall economy.

Cyclical industries, such as the air transport industry, are heavily influenced by the macro-environment. Any change in the conditions of the fundamentals which drive or suppress growth, will result in alterations to air transport industry trends. This will also affect aviation-related enterprises which are susceptible to the PEST factors which exist in a given country.

To identify the factors which define the macro-environment on a country level, we looked at the different approaches used in measuring national competitiveness.² National competitiveness is defined as the ability of a country to use its natural, human and financial resources to achieve productivity and efficiency. The emergence of national competitiveness as an important policy goal has encouraged the development of indicators by which policy-makers and practitioners can measure, analyze and compare relative competitive performance. The growth of competitiveness indices reflects the growing emphasis placed on benchmarking national economic performance. The most common method of benchmarking – and the one receiving greatest media attention – is the approach which ranks several nations in terms of national competitiveness in the form of a league table (Lall, 2001; WEF, 2012). This is done by building a system of indicators which are merged into a single, composite score and/or rank.

The first competitiveness index was produced in 1979 by the World Economic Forum (WEF) together with the Institute for Management Development (IMD). The index covered, at that time, 16 European countries only and was made up of four competitiveness factors, whereas the index published in the latest report

² The term national competitiveness is frequently conceptualized in terms of the economy's overall performance in macroeconomic terms. In short, it is assumed that a higher degree of competitiveness leads to a higher productivity, and therefore to a higher standard of living (McFetridge, 1995). Porter (1998) asserts that national competitiveness is equivalent to productivity. This reflects the close links which Porter believes exist between the microeconomic productivity of an industry and the macroeconomic performance of the national economy.

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