



# The influence of firm age on the relationships of airline performance, economic situation and internal operation



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## ABSTRACT

The ways in which airline performance depends on the economic situation and internal operation are well established in the literature. One of the contextual factors that may change the nature of these relationships is firm age. As such, the aim of this study is to investigate the moderating influence of firm age on airline performance outcomes. Thirty airline companies from the Asia Pacific region were selected, and relevant data from 2006 to 2011 were collected. It can be deduced that company experience or firm age can help in taking control of the relationship between the constructs; thus, this measurement acts as a moderator in the research model.

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## 1. Introduction

Airline companies face many different challenges, some of which may affect their performance and others that might result in their closure. For example, according to a report issued by the Airline Transport Association (ATA, 2008), since 1978, at least two hundred commercial airlines have had to merge with other airline companies, seek bankruptcy protection, and/or liquidate or terminate their operations. The report specifically highlights that 12 carriers filed for bankruptcy protection during a period of three years from 2005 to 2008. Due to the economic crises in the last decade, the period between 2000 and 2005 saw a 27% reduction in the number of employees at the six largest air carriers (Scovel, 2006). While the transport service index in terms of passengers and freight increased from 2000 to 2006, a clearly unstable trend can be observed since 2006 (see Fig. 1).

One of the most important results of globalisation has been the increasing performance and resources of airline companies, expansion of market areas, proliferation of destinations and business partners, and the consequent enhancement of conditions to increase competitiveness. Moreover, the survival of each company, especially in the current financial crisis, depends on whether its managers can identify useful policy to control and improve performance given such a situation. In the current market environment, the question is therefore what type of policy should airlines adopt to stabilise or improve their performance. One strategic move is to form alliances through mergers or acquisitions of two or more companies. This step avoids bankruptcy and may form a strong coalition among companies. Examples of such coalitions are United Airlines with Continental and AirTran with Southwest.

According to Caves (1998), little attention has been paid to how aging affects firm performance. Investigating the relation between firm age and performance reveals whether firms are able to implement proper strategies to stay relevant and find

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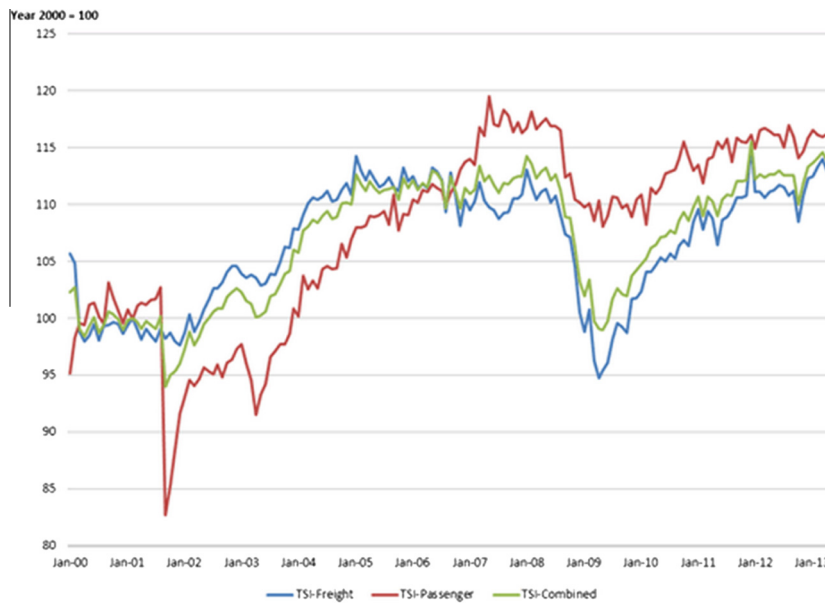


Fig. 1. Transport service index (source: (RITA, 2013)).

ways to constantly renew themselves. If performance declines as firm age increases, it indicates that older firms are not able to pursue entrepreneurial opportunities with greater congruence to market expectations. As a result, some of these aged firms are eventually taken over (Loderer et al., 2009). This paper highlights the potential influence of firm age on the indicators under control by airline managers given the current economic situation. The relationship between the economic situation and internal operation is well established in a way where managers will come up with survival and cost strategies to perform well under current market conditions. Here firm age plays a role in a way that it represents the experience of a company. Anderson and Eshima (2011) argued that older firms are not able to capture the value from entrepreneurial strategies as their younger counterparts are. This is supported by other researchers such as Hannan and Freeman (1984) who found that age can have adverse effects on performance because of the organisational rigidities and impaired firm's ability to perceive valuable signals. However, it is also believed that firms learn about their abilities and about how to come up with strategies to survive better as they grow older (Baker and Kennedy, 2002).

In estimating organisational performance, age was used as an independent variable (Wang et al., 2011; Powell et al., 1999; Hmieleski et al., 2010), a control (Wang et al., 2010; Carmeli et al., 2011; Ling, 2012; LiPuma et al., 2011) and a moderator (Onyango et al., 2012; Anderson and Eshima, 2011; Jiménez-Jiménez and Sanz-Valle, 2010) variable. In particular, firm age has been used in airline performance modelling as an independent variable with route frequency, route length, passenger growth, and aircraft size (Malighetti et al., 2011). However, passenger growth and route frequency are both influenced by firm age and it cannot be considered as an independent variable. Although firm age is a variable that can be used to show a company's experience, it cannot be used as the only independent variable that directly affects performance. This variable is only used to produce knowledge that can then be applied by managers in planning and performing flight strategies and programming.

Our study therefore aims to investigate the moderating influence of firm age on the nature of the relationship between the economic situation and internal operation and eventually its effect on performance of airline industry. To achieve this aim, the first step in our analysis is to investigate the relationship between the economic situation, internal operation and airline performance. This is followed by establishing the moderating effect of firm age on the relationship between the economic situation and internal operations. In the final step, the relationships between the three variables are investigated again, this time taking into account the moderating effect of the variable firm age. The contribution of the research is the use of firm age as a moderator, which has not been performed before in airline performance modelling.

## 2. Theoretical development

### 2.1. Previous studies on airline performance modelling

We divided the formation of airline performance estimation into 3 periods, including first generation (Early 1980s–Late 1980s), second generation (Late 1980s–Early 2000s), and third generation (Early 2000s–Present).

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