Analysis on the Factors Causing Airlines Bankruptcy: Cases in Indonesia

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Abstract
the high growth of national aviation services after the aviation deregulation in 2000 has given a positive impact on the increase of national economic activities, especially in tour and trade. In the same time, however, it negatively impacts the aviation business itself, making many airline companies stop their operation and then go to bankruptcy. The aim of this research is to analyze the factors causing bankruptcy to some national airline companies in Indonesia after the aviation deregulation in the periods of 2001-2010 and 2011-2015. It is an exploratory research with a qualitative descriptive approach emphasizing on evaluating the factors causing bankruptcy to a number of domestic airlines in Indonesia. The method of data collection is an interview with the format of focus group discussion (FGD), while the data analysis uses factor analysis method. The results of this research show that there are two main factors that cause bankruptcy to a number of domestic airlines in Indonesia. They are both internal and external factors of the companies.
Key words: *Airline companies bankruptcy, internal factors, and external factors.*

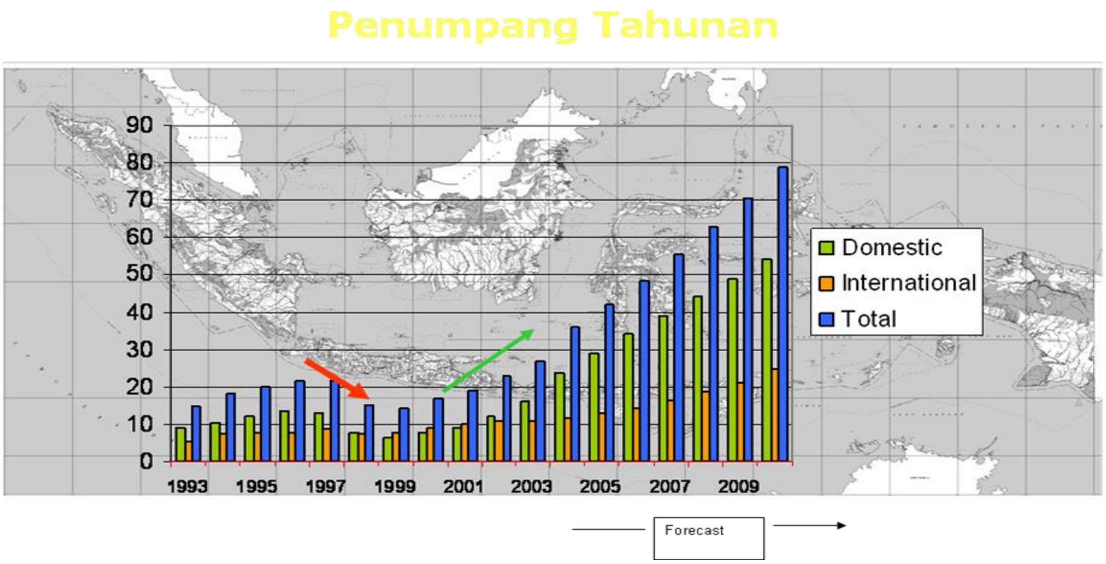
INTRODUCTION

Since the implementation of the national aviation deregulation policy in 2000, the growth of aviation business in Indonesia increases rapidly. This can be seen from the number of new airline companies, the frequency of flight, new cities as the destination, and the increasing number of passengers and cargo from year to year with a very significant trend of increase (Inaca 2007, and Ministry of Transportation 2008).

As a comparison, in the period before 2000, the number of airline companies that operated was very limited, less than 25 companies. In particular with the scheduled airline companies, there were only Garuda Indonesia (SOE), Merpati Nusantara Airlines (SOE), Mandala Airlines, Bouraq Airlines (bankrupt in 2008), Dirgantara Airlines, Deraya Air Service, Pelita Air Service, and Sempati Air (bankrupt in 1998). The condition is very different if it is compared with the aviation business after 2000 in which there are around 30 *airlines* and 40 *air charters*.

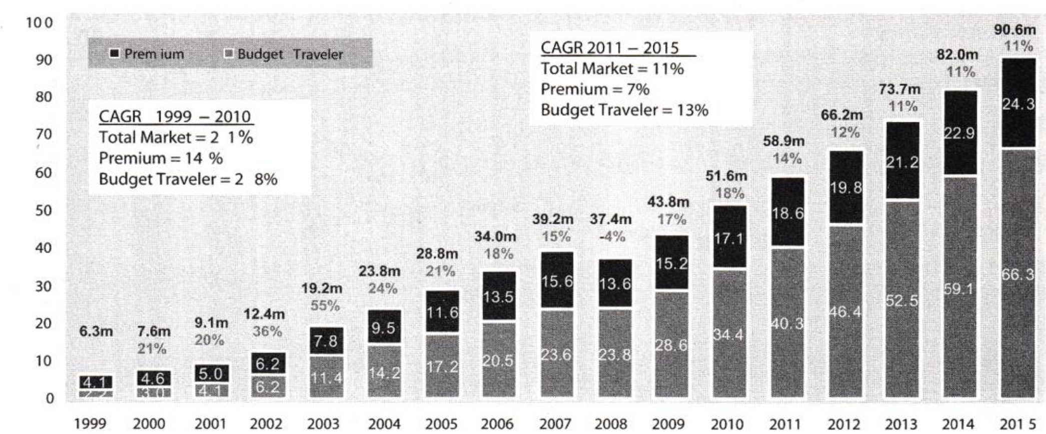
Along the way, some airline companies go bankrupt, such as Star Air, Seulawah Air, Efata Papua Airlines, Air Efata, Air Paradise, Bali Air, AW Air (acquired by Air Asia to become Indonesia Air Asia), Adam Air, and so on that are presumably losing in the competition, running out of capital, being mismanaged, or even their *Air Operator Certificate* (AOC) are canceled by the Government as the regulator. The next airlines that follow to go bankrupt are Batavia Air, Mandala Airlines, Bouraq Airlines, and Merpati Nusantara Airlines in the period of 2010-2013.

The following figure illustrates the growth of airline passengers from 1993 to 2009 (Figure 1) and two other ones illustrate a fantastic growth of passengers in the periods of 1999-2015 and 2004-2015 (accompanied with the prediction) as can be seen in Figure 2 and Figure 3.



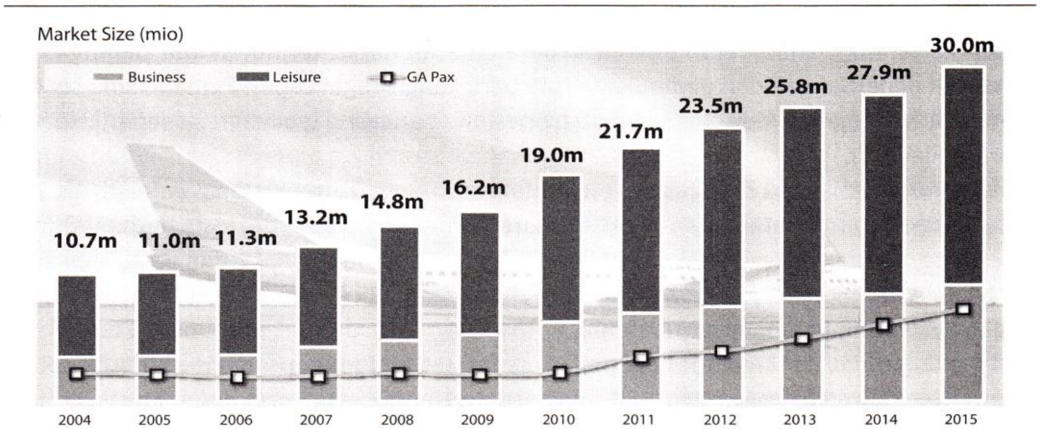
Source: Dephub, 2007.

Figure 1 The Growth of Airline Passengers from 1993 to 2009



Source: Ministry of Transportation, PT Angkasa Pura I & II, and *forecast* for Garuda

Figure 2 The Growth of Domestic Airline Market in Indonesia and Its Prediction (1999-2015).



Source: Ministry of Transportation, PT Angkasa Pura I & II, and forecast for Garuda

Figure 3 the Growth of International Flight Routes in Indonesia and Its Prediction (2004-2015).

It is also shown the domestic passenger market share achieved during the period of 2009-2013 which tends to increase every year as can be seen in Table 2.

Table 1 Market Share of Domestic Passengers 2009-2013 According to National Commercial Air Transport in Indonesia

No	OPERATOR	TAHUN									
		2009	MARKET SHARE	2010	MARKET SHARE	2011	MARKET SHARE	2012	MARKET SHARE	2013	MARKET SHARE
1	PT. BATAVIA AIR	6.107.526	13,94%	6.772.583	13,08%	6.754.844	11,22%	6.972.749	9,76%	-	-
2	PT. MANDALA AIRLINES	3.552.985	8,11%	2.349.021	4,54%	-	0,00%	130.289	0,18%	795.890	1.05%
3	PT. GARUDA INDONESIA	8.398.017	19,17%	9.993.272	19.30%	13.701.879	22,76%	15.304.472	21,43%	16.729.519	22,08%
4	PT. MERPATI NUSANTARA	2.193.009	5,01%	2.361.755	4,56%	2.186.174	3,63%,	2.520.971	3,53%	1.355.555	1,79%
5	PT. INDONESIA AIRASIA	1.454.914	3.32%	1.062.268	2,05%	1.306.207	2,17%	2.170.705	3,04%	3023.265	3.99%
6	PT. PELITA AIR SERVICE	36.325	0,08%	3.059	0,01%	47.299	0,08%	5.582	0,01%	10.235	0,01%
7	PT. LION AIR	13.377.826	30,54%	19.698.493	38,05%	24.971.795	41,48%	29.441.502	41,22%	32610.168	43,04%
8	PT. SRIWIJAYA AIR	5.464.615	12,47%	7.016.715	13.55%	7.382.467	12,26%	8.100.475	11,34%	8606.261	11,36%
9	PT. TRAVEL EXPRESS AVIATION SERVICES	314.166	0,72%	316.952	0,61%	316.060	0,53%	342.876	0,48%	677.725	0,89%
10	PT. WINGS AIR	1.270.853	2.90%	833.510	1,6J%	1.995.889	3.32%	2.597.850	3,64%	3.419.134	4,51%
11	PT. TRIGANA AIR TRANSPORT	512.631	1,17%	581.006	J, 12%	727.657	1.21%	930.765	1,30%	804.231	1.06%
12	PT. INDONESIA AIR TRANSPORT	148.071	0,34%	133.267	0.26%	18.801	0,03%	10.566	0,01%	63.285	0.08%
13	PT. KALSTAR AVIATIONS	258.403	0,59%	312.654	0,60%	579.196	0,96%	548.402	0,77%	626.741	0,83%
14	PT. TRAVIRA AIR	-	-	7.050	0,01%	1.699	0,00%	1.609	0,00%	787	0,00%
15	PT. AVIASTAR MANDIRI	-	-	77.147	0,15%	142.171	0,24%	179.310	0,25%	177.012	0,23%
16	PT. TRANSNUSA AVIATION MANDIRI	-	-	-	-	65.168	0,11%	202.318	0,28%	185.842	0,25%
17	PT. ASI PUJIASTUTI	-	-	-	-	-	-	274.807	0,38%	217.916	0,29%
18	PT. SKY AVIATION	-	-	-	-	-	-	230.883	0,32%	349.273	0,46%
19	PT. PASIFIC ROYALE	-	-	-	-	,	-	10.503	0,01%	-	-
20	PT. CITILINK INDONESIA	-	-	-	-	-	-	1.444.830	2,02%	5344.920	7,05%
21	PT. BATIK AIR	-	-	-	-	-	-	-	0,00%	772.463	1.02%
	TOTAL	43.808.033	100%	51.775.656	100%	60.197.306	100%	71.421.464	100%	75.770.222	100%

Source: Air Transport Statistic 2013, Directorate General Air Transport 2014.

The phenomenon of bankruptcy in a business, including the bankruptcy of some overseas airlines such as in the USA, is a very common thing. In Indonesia, however, the bankruptcy of airlines is a unique and freak thing since it occurs in a relatively short time and in a fairly big number (eight to ten airlines in the period of 10 years). It seems so easy for Indonesian airlines to go bankrupt. Mass media often write *"easy to build, easy to fall too"* to satirize the poor airline business in Indonesia.

The bankruptcy of a number of domestic airline companies in Indonesia becomes a very intersting thing to study. It considers that in the era 2000 after the monetary crisis in 1997/1998 followed by the tragedy of WTC incident 11 September 2001, the airline service market in Indonesia grew significantly triggered by the aviation deregulation that gave facility for investors and people to enter the airline business in one side and the availability of aircrafts provided by the lessors at the relatively low price and financing scheme in another side. At the same time, there was a rise in airline business with the concept of *low cost carrier* (LCC) which had been successful in the European and American countries in the 1990 era (Majid, 2010 dan Djamal, 2014).

It seems that the euphoria of airline business in Indonesia positively responded by domestic market has not been fully accompanied with *prudent* and *professional* airline business management, either in the side of air transport operator, or airport operator, or ATC service provider, or the minimum aviation infrastructures, especially airport and flight navigation as well as the weak supervision and law enforcement by the Government. In addition, the relatively easy requirements to establish an airline company (only by having at least three aircrafts, one self-owned and two under control), the lack of strong capital stucture, and the relatively covert/not transparent financial condition of the companies are presumed to contribute to the bankruptcy of a number of airlines. At the same time, the supporting business and airline business supporting industry are not ready or prepared to anticipate or match the growth in air transport subsector—the unpreparedness or deficiency of aviators/pilots, flight technicians, workshops for aircraft maintenance and repair, flight inspectors (for aircrafts, airlines, airports), ATC officers, aviation security officers, etc. This business has not seemed to be directed seriously toward a strong and reliable aviation industry.

Unfortunately, the momentum of growing aviation business supported by the improved purchase power, the visible growth of middle class characterized by frequent travel (tour) and shopping, and the easy way for air transport operators to find aircrafts are not matched with the abovementioned things. Consequently, the growth of national airline services (especially for new airlines) is a fake and the achieved performance has poor quality. For example, in the financial performance it is difficult to see whether the financial condition of an airline is healthy or not, because what are published in the media are only the sales and traffic (matrket share with the size of number of passengers transported) which do not reflect the real yield. Likewise, in the operational and service performance, there are still delays and postpones or even cancelation of flights with increasing escalation and unprofessional complaint handling. It is getting more miserable that the performance or quality of flight safety and security—which should be the first priority and core business of an airline—is not well managed, proven that in the period of 2005-2007 the frequency of flight accident in Indonesia was relatively very high with a high degree of fatality and reached the worst condition when an Adam Air aircraft fell down in the South Sulawesi waters (Burhanuddin, 2007).

In various news published by some national mass media and in some limited discussions it is often said that the bankruptcy of Indonesian domestic airlines is presumably due to those airlines lost to compete in the tight and unfair competition, ran out of capital, and mismanaged the business or the combination of the two or three causes leading to inability to continue their operation and finally to bankruptcy.

Based on the the above descrtiption, the main problem to reveal in this article is: what are the factors causing the bankruptcy of a number of domestic airlines in Indonesia in the period of 2001-2010 and 2011-2015?

This article is based on qualitative descriptive approach and is an exploratory research using the primary data from the interview with some selected respondents who are knowledgeable in airline business through an FGD. The technique used for data analysis is factor analysis (Razak, 2014).

DISCUSSION

Bibliographical Study on a Company Bankruptcy

Based on the bibliographical study, there are some theories concerning the bankruptcy of a company. The theories that can be proposed in this article are such as the theory of a company bankruptcy, the theory of predicting the potential of a company bankruptcy, the theory of company life cycle, and the theory of strategic management.

In the theory of a company bankruptcy, Supardi (2003) states that bankruptcy is usually meant as the failure of a company to make profits in running its operation. According to Martin (1995) in Supardi (2003), a bankruptcy as a failure happening to a company is defined in some meanings: (1) *Economic Distressed* is a failure in the economic sense usually meaning that a company loses money or revenue. It is not able to finance its own expenses, meaning that the profit is less than the cost of capital or the present value of the company's cash flow is less than the liabilities (Adnan 2000 in Murtanto 2002). The failure happens if the real cash flow of the company is much less than the expected cash flow. Even the failure may mean that the return on historical cost of investment is less than the cost of capital the company has incurred for the investment. (2) *Financial Distressed*. The meaning of *financial distressed* is the distress in fund both in term of cash and in term of working capital. Some *asset liability management* plays an influential role in the arrangement to prevent the *financial distressed*. Whereas according to Adnan (2000), *financial distressed* usually means an insolvency that distinguishes cash flow base from share base. The insolvency based on cash flow has two forms: *technical insolvency*, happening if a company can not pay its liabilities at the due date although its total assets are more than its total debts; and insolvency in the sense of bankruptcy, where it is defined as the negative net assets in the conventional balance sheet over the present value and cash flow which is expected to be less than the liabilities (Murtanto 2002).

The research carried out by Dun and Bradstreet in 2000 (Ahmad 2003) reveals that the factors causing a bankruptcy are economic factors, finance, experience, negligence, disaster and fraud. Whereas according to Adnan (Murtanto 2002), the factors causing a bankruptcy that refer to the case of banking can be classified into three types:

1. General Factors

a. Economic sector, coming from the symptoms of inflation and deflation in the price of products and services, financial policy, interest rate and devaluation or revaluation against foreign currencies.
b. Social sector, in which changes in the community life style are very influential to the demand on products and services or things related to employees.
c. Technological sector, in which the use of technology needs costs burdened to the company especially for maintenance and implementation.
d. Government sector, in which there is a government policy on cancelling the subsidy to companies and industries, change in the implementation of export and import tariffs, and new regulative policies for banking or employment and so on.

2. External Factors

a. Customer sector, in which to prevent the customers from going away, banks should identify the characteristics of consumers or customers as well as create opportunities to get new customers.
b. Creditor sector, in which the strength lies on providing loan and determining the time frame for returning it based on the creditor's trust on the liquidity of a bank.
c. Competitor/other bank sector, which has to be paid attention because it concerns the difference in serving the customers.

3. Internal Factors of the Company

a. The excessive credit given to customers, causing arrears so that they finally can not pay.
b. Inefficient management due to the lack of ability, experience, skill, adaptive attitude, and initiatives from the management.
c. The abuse of authorities and frauds frequently done by the employees and even the top management, which are very disadvantageous, especially if related to the company's finance.

According to Suwarsono (1996) in Adnan and Taufiq (2001), there are several managerial and operational signs or indicators that rise when a company goes bankrupt, namely:

a. Indicators from business environment (external indicators)

The economic growth and activities give indication for the management to make decisions to expand the business. Low economic growth becomes a fairly important indicator of weak business opportunities. The availability of credit and the capital market activities can be used as indicators of whether the required fund is easy or difficult and whether it is expensive or cheap. The increase of business population can be used as an indicator of the increasing competition and the decreasing potential profit promised because of changes in the market structure.

b. Internal indicators

The signal of failure in the internal variable can be found in each stage of the organization life cycle: start, growth, middle, and maturity. In order to be called as a sick company, the management does not need to wait for the appearance of all indicators. Some indicators have been enough to signal the sickness of a company. Not different from the indicators from business environment, the problem will become more complicated if interaction among indicators occur.

c. Combined indicators (combination between external and internal indicators)

A sick company is frequently caused by the interaction or combination between the threats coming from business environment and the weakness from the internal variable that make the company potential to go bankrupt.

Particulary in airline industry, according to Manurung (2010), the factor of airline environment is full of uncertainty. Even the uncertainty varies from one area to another. It means that every branch office of airline company faces different uncertainty as well. Meanwhile, the development of market and competition in every place goes on.

Many factors, including the social (demographic and psychograpic) condition as well as the politic that develops in the regions (Bailey 2002 in Manurung 2010) have influenced the environmental changes. Regional autonomy has encouraged social and political changes. The process of decentralization continues going on until the policy is not concentrated in the central any more.

In addition, the growth of airline industry in the domestic market to a certain degree is also influenced by global issues such as Asian monetary crisis in 1997, the raise of world oil price, bom attacks to WTC in the USA on 11 September 2001, tragedic bombing in Bali which happened twice, SARS, and avian flu (Bailey 2002). In general, the external factors that influence the improved or declined performance of airline industry are regulation, economic growth, social-political condition, market, and competition (Doganis, 2006, and Wells, 2004).

In the other hand, from the company's internal point of view, the effectiveness and efficiency of airline business operation are determined by the ownership of aviation technology. Airline industry is an industry with high technology both *main technology* in the aircraft and its *supporting technology*. The supporting technology such as information technology plays an important role in the development of airline industry (Franke 2007 and Forsyth 2007 in Manurung 2010).

In the theory of predicting the potential bankruptcy of a company, there is Altman Z-Score method which is one of the effective tools for seeing the performance of a company whether it is good or bad and for predicting the potential bankruptcy of a company at once, particularly from the aspect of finance or finance management.

In order to overcome the limited analysis on financial ratio, Altman (1984) has combined some ratios to become a model for predicting the bankruptcy of a company called as Z-Score. Z-Score is a score determined by the standard calculation multiplied by financial ratios which will show the probability level of a bank bankruptcy (Supardi and Mastuti, 2003). It is those ratios that detect the financial condition of a company related to the liquidity, profitability and activities of a company (Muh Akhyar, 2001). The formula made by Altman is as follows

$$\boxed{\textbf{Z-Score} = 0{,}717X1 + 0{,}847X2 + 3{,}10X3 + 0{,}420X4 + 0{,}998X5 \quad 27}$$

with the ratios consisting of:

1. *Working Capital Assets/Total Assets* (X1)
2. *Retained Earnings/Total Assets* (X2)
3. *Earnings Before Interest and Taxes/Total Assets* (X3)
4. *Market Value Of Equity/Book Value Of Total Debt* (X4)
5. *Sales/Total Assets* (X5)

Some indicators that can be used to detect the existence of problems in the company's activities which subsequently influence the abovementioned ratios are the decreasing market share of key products, the move of market share control to competitor, the drastic decrease of working capital, the drastic reduction of supply circulation, the declining consumer trust, and some other indicators.

Based on his research, Altman finds five ratios for a company to bankrupt and not to bankrupt and calculate the value of Z for those two groups. In that model, the score 2.90 is the threshold for healthy company. Thus, the company with score above 2.90 can be said a healthy company. Whereas the company with score under 1.20 will be classified as company potential to bankrupt. Then those with scores between 1.20 and 2.90 is classified as *grey area* company.

The method of Altman Z-Score can only be used if the financial data for past two or five years is available. It means this method will only be effective to evaluate the company's performance from aspect of financial health as well as to predict the potential bankruptcy of a company based on the financial health. However, this method will be nonsense if there is no financial data available. Meanwhile, it is relatively difficult to obtain the financial data of airline companies in Indonesia except the state-owned enterprises (SOEs) or *go public* companies. The domestic airline companies that have been declared as bankrupt in the last decade (2001 to 2010) before the implementation of UU No. 1 Year 2009 substituting UU No. 15 Year 1992 about Aviation are relatively closed in terms of financial condition or problems, so that it is difficult for people to access or obtain the real financial data.

In the theory of company life cycle, life cycle of an organization is a stage of development experienced by any organization along with the condition, difficulties, transitional problems and the implication that accompany each of the development. Like the life of an organism, the growth and deterioration of any organization are caused by two factors, namely flexibility in responding any changes in the environment and ”rigidity” (controllability) in responding any changes (Adizes, 1996).

Each stage passed throguh by an organization will always provide difficulties or problems that require to be well handled either by the internal company or through the intervension from external. Indded, the stages of organizational development itself can be predicted and is repetitive (Adizes, 1999). Therefore, the understanding of each stage of organizational development will provide the organization leaders with ability to proactively and preventively respond the organizational problems in the future, or, if not able, to avoid them as could as possible.

Ichak Adizes (1989) describes three main stages in the organization life cycle, i.e.:

1. *Growing stages* that include introductory stage (*courtship*), *infancy*, and childhood (*go-go*);
2. "*Coming of Ages*" that include *adolescence* and peak or golden era (*prime era*); and
3. Declining stages (*aging organizations*) that include establishment stage (*stable organizations*), *aristocracy*, *early bureaucracy*, *bureaucracy and death*.

The description of the organization life cycle using the analogy of a living thing gives a discourse and knowledge that an organization basically develops, in which every development will provide certain problems and challenges for the organization management.

The inspiration that can be taken is how to well manage an organization by identifying the signals that lead to the deterioration in each stage of development. By identifying negative signals, the organization leaders can make improvement (*treatment*) so that the organization can survive and grow in accordance with the initial aspiration (Samun Jaja Raharja, 2010).
At a glance, the theory of company life cycle resembles the theory of product life cycle which consists of birth, growth, maturity, and death.

In the theory of strategic management, going out of the industry or stopping the operation or going to bankrupt is one strategy implemented by a company. In the strategic management, the mapping of a company's strategy consists of corporate strategy, business strategy, and functional strategy. In general, corporate strategy will determine the company's orientation toward the growth and competitive strategy in the industry or market to be penetrated. Corporate strategy provides *strategic platform* or organizational capability to overcome the business problems in different environments with a set of strategies (Poppy Rufaidah, 2012).

According to Rufaidah (2012), the corporate strategy brings three types of general orientation, namely *growth*, stability (*delay*), and *retrenchment*. After having chosen the general orientation for its strategic direction, a company may choose some specific strategies to focus more on the strategy implementation to achieve the company's objectives. In the retrenchment-oriented corporate strategy, there are three specific strategies that can be chosen: *turn around*, *captive company*, and *exit strategy*.

Retrenchment strategy is a strategy implemented by a company when it is in the position of weak business competition in an industry that results in poor performance, declining sales, and the profit continuously turns into loss.

The specific strategy in *retrenchment* to be chosen when a company faces a difficult and weak position is *exit strategy*, i.e. a strategy implemented by a company to exit the industry or to liquidate itself. This strategy consists of:

a. *Sell-out strategy*, that is to sell the company's asset to cover the business loss experienced by the company and there is still a hope for the company to revive if additional fund/capital is injected by other parties.
b. *Divestment strategy* (strategy to disaggregate), that is to sell the company to others in order to keep the employees work.
c. *Bancruptcy* (declare to bankrupt), that is to sell all the company's assets to pay all its debts. Usually, the management will give over the decision for liquidation to the court in order that the company obtain the value that can be liquidated to cover its liabilities to the shareholders.

The same expression is delivered by Mudrajad Kuncoro (2006), stating that organizations frequently experience decreases in performance and strategic objectives. It is clear here that the managers do not do their job effectively and are not successful in developing or exploiting the sustainable competitive advantages. Something has to be done to overcome this declining performance or the organization will not survive. The strategy used to overcome the problems in such an organization is a renewal strategy.

There are two types of main renewal strategy: *retrenchment* and *turnaround*. Each of these strategies is designed for resolving the problem of company's declined performance and for returning the organization back to the expected performance.

The implementation of renewal strategy usually depends on two strategies, namely *cost cutting* and *restructuring*.

Restructuring in an organization takes some forms, i.e. restructuring to refocus its core business (*back to the core*) by selling some of its businesses, *spin off*, liquidation, reengineering, or scaling down the business.
What will happen if there is no buyer for the business the organization wants to sell or there is no possibility for the company to *spin off*? Another way that can be taken by the company is liquidation. Liquidation is *a strategy implemented by a company to fully close its business*. By liquidation, the company can still get profits by selling its assets. This strategy is usually the last choice that can be taken by the company.

According to Jemsly Hutabarat and Martani Huseini (2011), if a company is in the weak competitive position whereas the market grows rapidly or slowly, thus the company can implement special and combined strategies such as strategies to change the core business, that is *going out of the existing business and entering a new one which become its core business*.

In this case, liquidation in the sense of "declaring to bankrupt" becomes the last choice to be taken by menjadi the company, either in the weak competitive position versus the rapid market growth or the weak competitive position versus the slow market growth.

Based on the theory of bankruptcy, theory of predicting the potential bankruptcy of a company, organization life cycle, and strategic management, it can be concluded that from the organization/company life cycle, the death or bankruptcy of an organization is a common thing, considering that every organization will experience or go through the stages in its life or journey which finally goes to the stage of death. However, the death can be avoided or postponed or decelerated by identifying well the signs of death or deterioration and at the same time the company makes improvement efforts including being adaptive with the facing environment and being creative and innovative in managing the changes so that it can survive or exit from the crisis and grow again positively.

In another case, based on the theory of company's strategic management, when a company is faced with difficult condition and is weak in the highly competitive industry (*hyper competition*) and tends to be unfair, thus the company will use *exit strategy*, that is to implement the strategy of *banckruptcy* (declaring bankrupt), selling all the company's assets to pay all its debts, or in another word implementing liquidation strategy, that is a *strategy done by a company to fully close its business.*

Based on the theory of bankruptcy, the bankruptcy of a company is the company's failure in running its operation to make profit caused by many factors. Basically, however, the factors can be classified into three, namely:

1. General Factors, including economic sector (the symptoms of inflation and deflation in the price of products and services, financial policy, interest rate and devaluation or revaluation against foreign currencies); social sector (changes in the community life style that are very influential to the demand on products and services or things related to employees); technological sector (the use of technology needs costs burdened to the company especially for maintenance and implementation); government sector (government policy on cancelling the subsidy to companies and industries, change in the implementation of export and import tariffs, and new regulative policies for banking or employment and so on).

2. External Factors, including customer sector (the company should identify the characteristics of consumers or customers as well as create opportunities to get new customers); creditor sector (providing loan and determining the time frame for returning it based on the creditor's trust on the liquidity of a bank); competitor/other bank sector (concerning the difference in serving the customers).

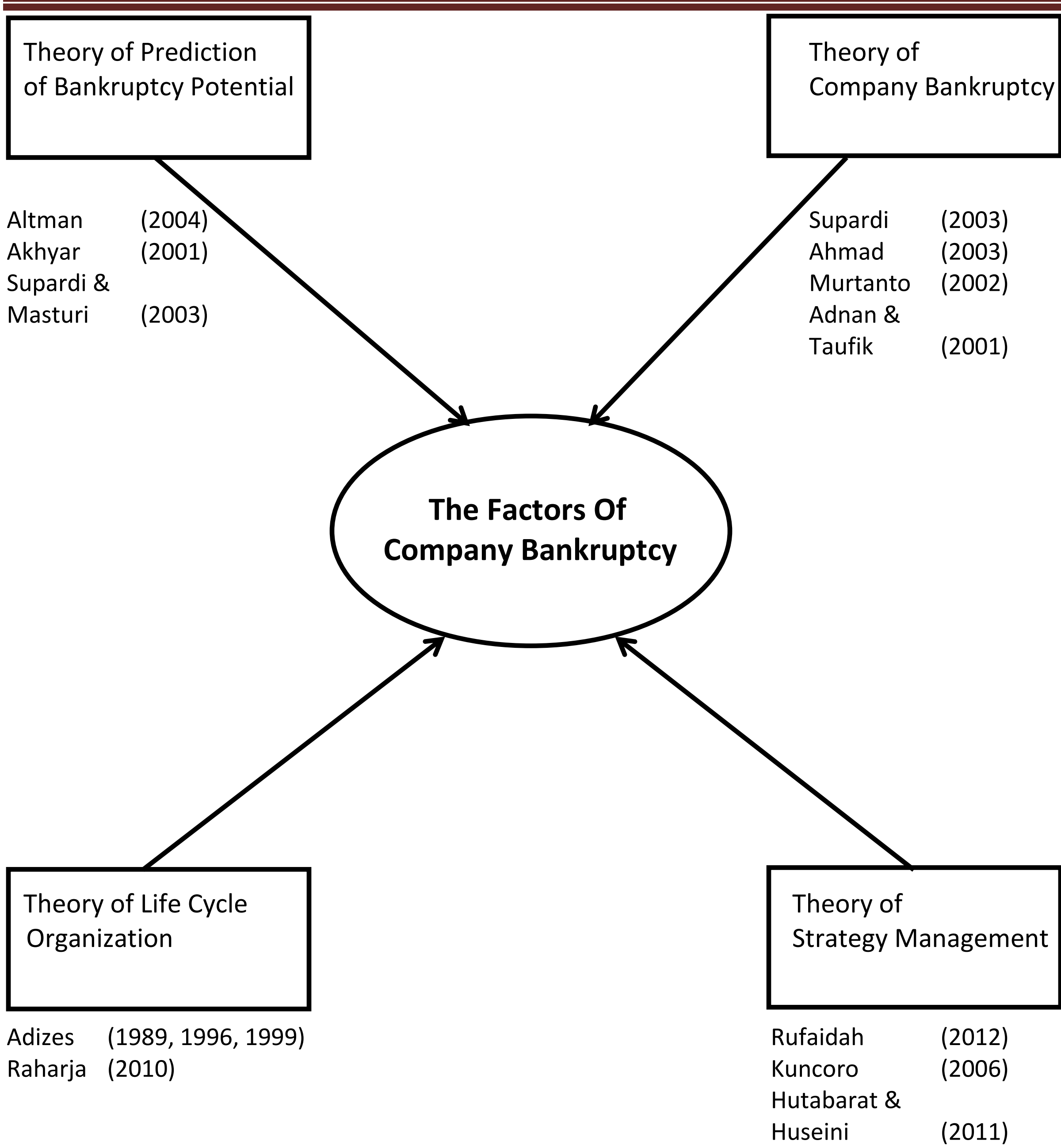
3. Internal Factors of the Company, including the excessive credit given to customers, causing arrears so that they finally can not pay; inefficient management due to the lack of ability, experience, skill, adaptive attitude, and initiatives from the management; the abuse of authorities and frauds frequently done by the employees and even the top management, which are very disadvantageous, especially if related to the company's finance.

Based on the four theories as described above, the bankruptcy of a business is generally caused by two main factors on internal and external approaches, i.e.:

Table 2 Summary of the Factors Causing Bankruptcy of a Company

No.	Causing Factors	Dimension	Indicators
1.	External Factors	Macroeconomy	Symptoms of inflation and deflation in the price of products/services
			Financial policy
			Interest rate
			Devaluation or revaluation against foreign currencies
			Low economic growth
			The availability of credit and capital market activities
			Increasing business population/changes in market structure
		Social-politic	Changes in the community life style that influence the demand on products or services or things related to employees
		Technology	the use of technology needs costs burdened to the company especially for maintenance and implementation
		Government/Regulation	government policy on cancelling the subsidy to companies and industries
			change in the implementation of export and import tariffs
			new regulative policies for banking or employment and so on
		Market/Customer	Identification on the characteristics of consumers or customers as well as create opportunities to get new customers
		Competitor	Concerning the difference in serving the customers
2.	Internal Factors	Credit	The excessive credit given to customers, causing arrears so that they finally can not pay
		Inefficient management	lack of ability
			lack of experience
			lack of skill
			lack of adaptive attitude, and initiatives from the management
		The effectiveness and operation of flight	*Main Technology*
			Supporting technology
		The abuse of authorities and frauds (employees' integrity and morality)	Employees abuse their authority/job
			Top management/company leaders abuse their authority/job, make frauds
		Strategic management (*exit strategy-banckruptcy*; renewal strategy-liquidation; special and combination-liquidation strategy)	Top management/the owners intentionally "declare to bankrupt" aiming to focus /turnaround to another business.

Source: processed from Adnan (Murtanto 2002), Dun and Bradstreet (2000) in Ahmad (2003), Suwarsono (1996) in Adnan and Taufiq (2001), Rufaidah (2012), Kuncoro (2006), and Hutabarat-Huseini (2011), Manurung (2010).



Source: Adaptation from Rufaidah (2012), Hutabarat and Huseini (2011), Kuncoro (2006), Supardi (2003), Murtanto (2002), Ahmad (2003), Adnan and Taufik (2001), Manurung (2010), Akhyar (2001), Adizes (1989, 1996, 1999), and Raharja (2010).

Figure 4 Theory of Companies Bankruptcy

Analysis on the Factors Causing Bankrupty of Airline Companies in Indonesia

Based on *focus group discussion* that has been held, a general description of the factors causing an airline to go bankrupt is obtained as follows:

1. External factors, i.e. the factors beyond the ability of company (management) and are macro in their nature, such as:

- Global economic crisis systematically and directly impacts the economic condition of Indonesia
- Due to the long econmic crisis, the purchase power of people decreases.
- The impact of that crisis is also felt by other industries and trades which start to make efficiencies.
- The weakening of rupiah currency against US dollar which is excessive (not natural) in a very short time.
- The weak rupiah currency against US dollar directly makes the price of Avtur bounce up highly (Indonesia follows the fluctuation of the international price of avtur)
- The demand drastically decreased since the people purchase power declines due to the crisis.

2. Internal factors of the company, including:

A. Strategic policies

- The management makes a wrong policy and decision in choosing and determining the type of aircraft to be used.
- The management makes a mistake in determining the routes, the *slot time* choosing, and the strategy for the network to be destined.
- The company *business plan* is not in line with its vision and mission.
- Waste (due to excessive inefficient behavior) occurs in the operational management.
- The investment policy is made in an inappropriate time, either from the side of its momentum and priority scale, or the value to be invested and the available source of fund.
- The management makes a mistake in the policy of human resources recruitment.
- The organizational size of the company does not match the need based on the company scale.

B. Operational policies

- The management is not disciplined in implementing the budget previously made and late in adjusting it, so that the posts of expenses are not appropriately controlled.
- The management is too weak in controlling the revenue (e.g. the target is not achieved, the middle management is weak/not agressive, the mistakes made by staff are allowed, disadvantageous routes are ignored, etc.)
- The management does not have reliable analysts and the marketing division is not solid.
- The aircraft maintenance and operation management is not reliable, making the aircraft dispatch reliability very poor; undisciplined crew, etc.
- The management of flight operation control in the field is not well done, making the On Time Performance (OTP) very low.

In some other cases, the following things are found:

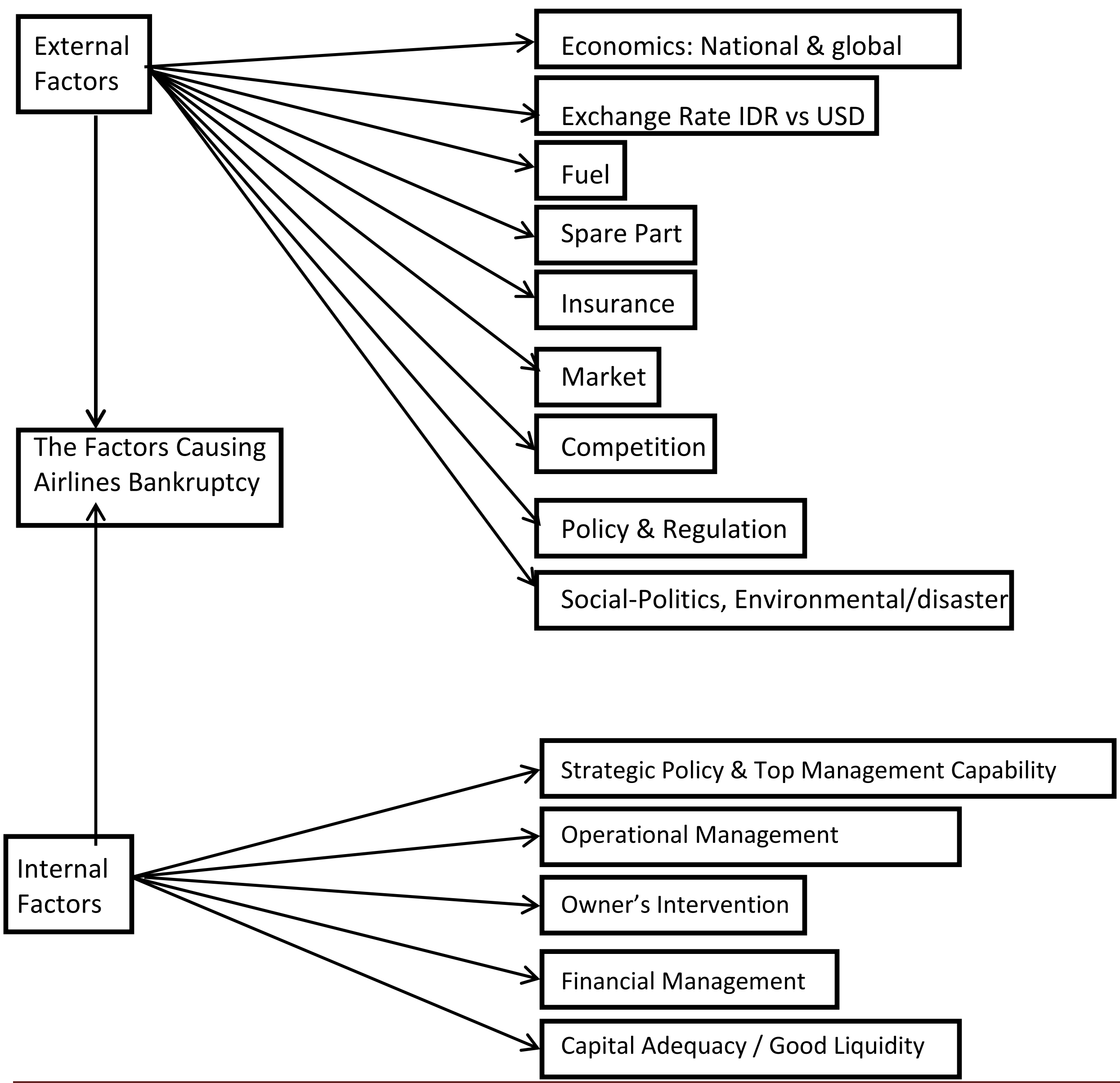
- The procured aircraft increases in its number, whereas in practice many aircrafts do not fly, not due to out of ordet but inappropriate scheduling.
- Buying *spare part* components using US dollar, whereas the revenue in rupiah.
- The ticket prices are very competitive; the sales of promotion ticket tend to reduce the revenue, thus *traffic lose* occurs.
- The disruption coming from smoke and fog causes some flight postpones or cancelations. In this case the flight operation/schedule is disrupted and thus makes loss.

Management review finds mistakes in the management and implementation of airline business rules, making the finance and debts on the chartered aircrafts which have been in maturity date are not professionally managed, so that the company has potential to bankrupt. This refers to the cases of Adam Air and Batavia Air.

In the case of the bankruptcy of Batavia Air, there ia a strong indication that the owners do *exit strategy-banckruptcy*, where the top management/owners intentionally "declare to bankrupt" aiming to focus/turnaround to another business. The owners intentionally move to property business which they consider more promising. This statement is in accordance with the opinion of Hutabarat and Huseini (2011).

Finance management review finds the following:

- Almost a hundred percents of the aircraft *total operating cost* (TOC) is in USD, whereas the domestic ticket is paid in IDR. The tariff per *seat mile* is still under USD 00.07 (7 cents). To compete by a price dumping is often done by low cost carriers (LCC). Today the value of USD 1 has been above IDR 14,000. Almost all airlines find difficulties in financing their operation.
- In addition, the increase of *supply* (in this case, *seat*) is faster than the growth of passengers, thus the price war inevitably occurs due to *supply over demand*. The percentage can be seen on the data of passengers and aircrafts that exist before and after the existence of LCC. Little companies are suppressed by big companies that cross-subsidize on the routes that have competitors so that they can sell tickets at lower prices. Therefore, little companies in the competitive routes are potential to go bankrupt due to high TOC while their revenue is small.



Source: Processed from Focus Group Discussion (FGD)

Figure 5 The Factors Causing Airlines Bankruptcy

Table 3 shows the domestic airline companies in Indonesia that went bankrupt in the periods of 2001-2010 and 2011-2015.

Table 3 Airline Companies to Bankrupt (Periods of 2001-2010 and 2011-2015)

No.	Name of Company	Year of Bankruptcy	Remarks
1.	Seulawah Air		Shortage of capital
2.	Indonesia Airlines	Stop operating in 2003	Start to operate in March 2001
3.	Star Air	Stop operating in 2008	Start to operate in 2000
4.	Efata Papua Airlines		Shortage of capital
5.	Air Efata		Finance management
6.	Air Paradise		Shortage of capital
7.	Bali Air		Shortage of capital
8.	AW Air	Stop operating in 2001	Start to operate in 2000
9.	Adam Air	Stop operating on 19 March 2008 (did not meet the aspect of flight safety)	Start to operate on 19 December 2003. Mismanagement, the owners intervene the company management.
10.	Mandala Airlines	Stop operating in April 2012 after being taken over by Saratoga Group-Tiger Airways	Start to operate on 17 April 1971. Shortage of capital.
11.	Bouraq Airlines	Stop operating in 2005 (lost to compete with new airlines?)	Start to operate in 1970. Shortage of capital.
12.	Batavia Air	Stop operating on 30 January 2013	Start to operate on 5 January 2002. Turnaround to property business.
13.	Riau Airlines		BUMD Riau. Shortage of capital.
14.	Kartika Airlines		Shortage of capital.
15.	Jatayu Airlines	Stop operating in April 2008	Start to operate on 15 May 2001.
16.	Linus Airways	Stop operating on 27 April 2009 (difficulty in liquidity)	Start to operate on 13 February 2008.
17.	Top Air		Shortage of capital
18.	Pacific Royal		Shortage of capital
19.	Merpati Nusantara Airlines		Shortage of capital and finance management.

Source: Ministry of Transportation, 2014 and INACA, 2014

CONCLUSIONS

There are two main factors that potentially cause the bankruptcy of airline companies, i.e. the external factors that are impossible for the company management to resolve and the internal factors that become the responsibility of the company management. In this case, the internal factors of the company rest more on the quality and capability of the top management (board of directors) and on its operation management.

The external factaors include the economic condition both national and global, the exchange rate of IDR against USD, the price of *fuel-avtur*, the price of *spare parts*, insurance premium, government policies/regulations, market, and competition. Whereas the internal factors include the company's strategic and operational policies, emphasizing on the ability of top management, ability in finance management and capital adequacy, human resources recruitment, and the owner's intervention in managing the company.

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