The Influence of Human Capital Investment, Leadership and Strategic orientation on Airport Performance

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**ABSTRACT:** This study develops an equation model with integrative aims: 1) to give total meanings about how the relationship among human capital, leadership and strategic orientation increases company performance and how the variables are related to each other and 2) to give a response to the gap in the previous studies about the influence of human capital investment on company performance. The study was conducted in PT. Angkasa Pura using primary and secondary data. The samples of the study were 25 airports under the management of PT. Angkasa Pura I and II in Indonesia. The sampling technique employed was saturated sampling or census. The results of the study show that human capital investment and strong strategic orientation will increase company performance. Leadership does not give influence either directly or indirectly. This means that human capital investment variable has immersed in leadership variable or has transformed into leadership variable.

**KEYWORDS:** human capital investment, airports, leadership, strategic orientation, airport performance.

I. INTRODUCTION

PT. Angkasa Pura deals with business on flying navigation service and airport service and manages 25 airports. PT. Angkasa Pura has three business groups, namely Air Traffic Services (ATS) Aeronautics, Non-ATS Aeronautics and Non-aeronautics. The flying navigation service results in Air Traffic Services (ATS) Aeronautics and flying service products which consist of Domestic and International Route Charge and International Overflying.

Nowadays the flying service business in Indonesia is increasingly flourishing. The rapid development in the information and globalization era forces companies to have appropriate competitive strategies to enable them to compete in a global level. Thus, the main thing to focus is to increase company performance by developing airport capacities, meeting service excellent standard for consumers, developing their technologies and facilities to create satisfaction and good performance and also managing and developing human resources.

Human resource is one of the important assets in a company which can be developed and improved through education and training. Human capital is an accumulation of the expertise and abilities of an employee gained from experience, training and education during his working periods to create qualified human resources with added value known as human capital which is a part of intellectual capitals. Human capital which refers to knowledge, attitude and skills which are developed and valued to have economic productive potentials (Bapise, 2001). Human capital has 5 components, i.e. individual capability, individual motivation, leadership, organizational climates and workgroup effectiveness. Each component has its own role in creating company’s human capital which eventually determines company value. According to Bontis and Fitz-enz (2002), human capital is a combination of knowledge, talent and experience of an employee. Human capital is also an essential resource of competence to gain competitive advantage in an organization (Lepak, 1999). Meanwhile, according to Hitt et al. (2001) human capital is a representation of knowledge, competence, skill and experience of human resource which gives economic value to an organization. The value added which employees contribute can be in the form of their developed competences, knowledge transfer and management culture change (Mayo, 2000).

The formation of value added through human capital will give sustainable revenue in the future which ultimately increases company’s performance (Bontis, 2007). The study by Delaney and Huselid (1966), Halpen (2008) and Blundell (1999) also concludes that human capital can increase organization performance. A study conducted by Harper and Earl (1996) proves that a company with research and development investment and higher human capital has better strategic orientation and Zahra et al. (2000) state that global experience is positively related to management strategic orientation.

The other factors which also influence company performance are leadership style and strategic orientation (Yuan & Lee, 2011). Robinson (1997) describes that there are relationships among leaders, organization performance and strategy. The studies conducted by Hambrick et al (2005), Bass et al. (2003),
Yang (2008), O’Reilly (2010) and Ashari (2011) indicate that there is a relationship between leadership style and company performance. On the other hand, studies by Hannan & Freeman (1983) show different results – there is no relationship between leadership and performance. The study by Timothy and Robyn (2011) finds out that transactional leadership style gives positive influence to performance and leadership style has positive relationship with organization performance but does not significantly influence it.

The study conducted Slater & Narver (1994) show that orientation strategy directly and indirectly influences company performance. Asikibia (2010) concludes that there is a positive relationship between strategic marketing orientation and the performance of banks which have the lowest SMO performance.

The study by Zhang & Bruning (2011) finds out that there is a relationship between entrepreneur personal characteristics and company performance with strategic orientation as the mediator variable. Morgan (2003) concludes that a company emphasizing analysis dimension, defensiveness and futurity in strategic orientation has a relationship with business performance. Laforet (2008) has conducted a study on the influence of size, strategic and market orientation toward company innovation concluding that size, strategic and market orientation are related to innovation.

The study about airports conducted by Halpen (2008) finds out that: (1) market orientation has significant and positive influence towards performance mediated by market turbulence and focused on the development of service element, (2) there is a relationship between market orientation and performance mediated by innovative marketing service.

II. LITERATURE REVIEW

Human Capital
Lepak (1999) defines human capital as the personal who possesses ability, experience and knowledge to create the economical value of an organization. Meanwhile, human capital according to Bontis (1999) is employee knowledge, competence and experience. Likewise, Baptise (2001) explains that human capital is employee knowledge and skill that produce economic potential for organization. Human capital is assumed to be the most important element in obtaining competitive advantage for most organization (Memon et al., 2009). Human capital consists of knowledge, skill, talent and experience which give value to a company (Fletcher, 2004).

Leadership
Leadership is an ability to influence other people to achieve objectives enthusiastically (David, 2006). According to Bass & Stogdill (1990), Zhu et al.(2005) leadership is one of the keys of a company performance, in which qualified managers make decision dealing with the purpose and objectives of the company, compensation, interpersonal behavior, product, target customers, delivery and others. According to Bass and Avolio (1990) and Waddock and Graves (1997) leadership is an ability to influence other people to achieve company objectives using different leadership styles.

Strategic Orientation
Strategy, according to Gluck and Lawrence (1987) is a plan which is broadly combined and integrated and is related to advantage. Therefore, strategy is a pattern to make a plan and to observe and predict external and internal environment situation to achieve objectives. Furthermore, according to David (2009) strategy is a communal facility with long-term objectives to accomplish while according to Hunger strategy is a formulation of comprehensive planning about how a company will achieve its mission and aim. Strategic orientation is an outline of company strategy which is related to decision and behavior of business units to achieve high business performance (Slater and Narver, 1994). Strategic orientation reflects company philosophy of how to run business through value and trust to achieve superior performance (Gatignon & Xuereb in Zhou et al., 2005).

Performance
Performance is a reflection of whole situation of a company in a certain period, a kind of results and achievements which are influenced by operational activities of a company in utilizing the resources owned (Helfert in Rivai, 2007), whereas Lavasque in Nawawi (2006) say that performance is everything done by someone and its result in doing a job. Schemerson, Hunt, and Osborn in Nawawi (2006) state that performance is the quantity and quality of task achievement which is done individually, in group or in organization. The quantity aspects refer to the workload or the work target, while the quality aspects refer to the perfection and the neatness of work that have been already carried out.
The Relationship between Human Capital and Leadership

Memon et al. (2009) state that performance of human capital is affected by the ability of strategic leadership in formulating and implementing human capital policies. Snell et al. (1999) state that the experience and threat will create an effective leader.

R1: There is an influence of human capital investment the leadership style.

The Relationship between Human Capital and Strategic Orientation

The study of human capital and strategic orientation conducted by Harper and Earl (1996) conclude that companies with investment in R&D and the higher human capital have a higher orientation strategies too.

R2: Human capital Investment has an effect on the company's strategic orientation

The Relationship between Human Capital and the Company’s performance

There are some empirical evidences showing the positive relationship between the development of human capital and organizational performance (Huselid (1995), David (1997), Marimuthu, et al. (2009), Ongkorahardjo et al. (2008), Ukenna et al. (2010)) and the decrease of turn over and the increase of company productivity (Guest, 2003). The study conducted by Marr et al (2003) conclude that intellectual capital significantly gives contribution to the enhancement of competitive position for the organization and increases the value added in organization. Meanwhile, the study conducted by Sneel and Dean (1992) identifies that human capital of the company has two dimensions: value and uniqueness which contribute to lower cost and improve the performance of company. Another study conducted by the Carnelli (2004) which analyzes the relationship between strategic human capital and the performance of public sector of organizations conclude that local governments with the human capital strategy such as education, competence, experience and human capital with value and uniqueness have better financial performance.

R3: Human capital investment influences company performance.

The relationship between Leadership and Strategic Orientation

Bass and Avolio (1990) states that the quality of the leader is often regarded as the most important factor to determine the success or the failure of organization. Schein (2010) and Porter (1996) state that leadership is a key in the effectiveness of organization. The role of leadership is very strategic and important in an organization, so the challenge in developing of the organization's strategy is very important. This is appropriated with the results of the study by Waddock and Graves (1997) concluding that there is a positive relationship between the assessment of Top Management and the decision of strategies.

R4: Leadership influences strategic orientation

The Relationship between Leadership and the Company’s Performance

Leadership is a significant management function to maximize efficiency and to achieve the objectives of the organization, Chung Ming (2011). Bass (1990) state that the quality of leadership is often regarded as the most important factor to determine the success or the failure of an organization. Some researchers conclude that the transformational leadership is more superior than the transactional leadership (Bass et al., 2003). Chung Ming et al. (2008) finds that transformational leadership is significantly related to business performance.

R5: Leadership effects the performance of the company

The Relationship between Strategic Orientation and the Company’s performance

Hit et. al (2001) explain that business-level strategy is related to the industrial position of a company to its competitors. In choosing a business level strategy, a company evaluates the strategies used because this decision will sacrifice large amount of company resource. Robinson (1997) state that the strategy taken must involve many organization members and the system applied in the company. Barney (1986), conclude that the strategic orientation directly and indirectly influences company’s performance.

R6: Strategic orientation influences company performance

III. RESEARCH METHOD

Based on the objectives to be achieved and the relationships among the variables, this research belongs to the description and explanatory research. The descriptive purpose of this study is to illustrate the specific characteristics of population based on the data obtained from the samples. The explanatory purpose of this study is to describe the relationships among research variables.

This research was conducted at the airports in Indonesia which are managed by PT. Angkasa Pura, both PT. Angkasa Pura I and Angkasa Pura II. The population in this study is all of the airports managed by PT. Angkasa Pura which provide domestic and international flight service. The total airports managed PT.Angkasa...
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Pura are 25 airports are scattered all over the territory of Indonesia. The samples were taken by using saturated sampling techniques (census) in which all population of the research was used as the sample.

The data collection was conducted by distributing questionnaires to the leaders of the airports managed by PT. Angkasa Pura, to answer and give their perceptions about the questions related to this study.

The inferential statistical method applied in the data analysis of this research is Partial Least Square program. The writer used Partial Least Squares (PLS), because PLS is indeterminacy factor, the powerful analysis method that does not assume that data must be measured using certain scale of measurement.

IV. RESEARCH RESULT

The respondent’s characteristics based on gender, period of work and the level of education can be seen in the table 1 below:

<table>
<thead>
<tr>
<th>No.</th>
<th>Respondent’s Characteristic</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>25</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
<tr>
<td>2.</td>
<td>Level of education</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>High School</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Academician</td>
<td>6</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>Bachelor’s Degree</td>
<td>7</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>Master’s Degree</td>
<td>11</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
<tr>
<td>3.</td>
<td>Period of work</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>&lt; 5 years</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>5-10 years</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>11-15 years</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>16-20 years</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>21-25 years</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>&gt;25 years</td>
<td>16</td>
<td>64</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

Based on the gender of the respondent, 100% the airport leaders of PT. Angkasa Pura are male. According to the level of education, 44% respondents are bachelor degree holders and 28% are master degree holders. Meanwhile, 64% of them have worked for more than 25 years.

The result of hypothesis testing among the variables is presented in the Table 2. below:

<table>
<thead>
<tr>
<th>Construction</th>
<th>Original Sample (O)</th>
<th>Mean Sample (M)</th>
<th>Standard Deviation (STDEV)</th>
<th>Standard Error (Sterr)</th>
<th>T Statistics (O/Sterr)</th>
<th>Additional Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Capital -&gt; Leadership</td>
<td>0.722635</td>
<td>0.699901</td>
<td>0.072073</td>
<td>0.072073</td>
<td>10.026360</td>
<td>Significant **</td>
</tr>
<tr>
<td>Human Capital -&gt; Strategic Orientation</td>
<td>0.336775</td>
<td>0.354378</td>
<td>0.052683</td>
<td>0.052683</td>
<td>6.392448</td>
<td>Significant **</td>
</tr>
<tr>
<td>Human Capital -&gt; Company’s Performance</td>
<td>0.359591</td>
<td>0.354175</td>
<td>0.112833</td>
<td>0.112833</td>
<td>3.186921</td>
<td>Significant **</td>
</tr>
<tr>
<td>Leadership -&gt; Strategic Orientation</td>
<td>0.566452</td>
<td>0.548040</td>
<td>0.060326</td>
<td>0.060326</td>
<td>9.389879</td>
<td>Significant **</td>
</tr>
<tr>
<td>Leadership -&gt; Company’s Performance</td>
<td>0.121190</td>
<td>0.097370</td>
<td>0.127876</td>
<td>0.127876</td>
<td>0.947713</td>
<td>Not Significant **</td>
</tr>
<tr>
<td>Strategic orientation -&gt; Company’s Performance</td>
<td>0.370014</td>
<td>0.404997</td>
<td>0.116829</td>
<td>0.116829</td>
<td>3.167138</td>
<td>Significant **</td>
</tr>
</tbody>
</table>

Note: ** Significant at 1% level
The hypothesis test results obtained:

1. The path coefficient of the influence of the human capital investment on the leadership variables is 0.722635 in t\text{statistic} value of 10.026360 > 2.518 at significance level of \( \alpha = 0.01 \).
2. The path coefficient of the influence of the human capital investment on the strategic orientation variables is 0.336775 in t\text{statistic} value of 6.392448 > 2.518 at significance level of \( \alpha = 0.01 \).
3. The path coefficient of the influence of the human capital investment on the company’s performance variables is 0.359591 in t\text{statistic} value of 3.186921 > 2.518 at significance level of \( \alpha = 0.01 \).
4. The path coefficient of the influence of the leadership on the strategic orientation variables is 0.566452 in t\text{statistic} value of 9.389879 > 2.518 at significance level of \( \alpha = 0.01 \).
5. The path coefficient of the influence of the leadership on the company’s performance variables is 0.121190 in t\text{statistic} value of 0.947713 < 2.518 at significance level of \( \alpha = 0.01 \).
6. The path coefficient of the influence of the leadership on the company’s performance variables is 0.370014 in t\text{statistic} value of 3.167138 > 2.518 at significance level of \( \alpha = 0.01 \).

V. ANALYSIS AND DISCUSSIONS

1. The Influence of Human Capital Investment on Leadership

   Human capital is an attempt to develop the ability, experience and knowledge through training and education (Lepak, 1999; Sneel & Dean in Wong, 1993). The study by Memon et.al(2009) states that the relationship of human capital investment to the leadership has positive and significant influence. It means that the better the human capital investment, the better the leadership. The of human capital investment plays an important role in the leadership. This supports the validity of theories proposed by Memon et al., (2009); Ukenna et al. (2010), Black et al. (2001).

2. The Influence of Strategic Orientation on Human Capital Investment

   Strategic orientation is an outline of the company’s strategy related to the decisions and the behavior of the business unit to achieve higher business performance (Slater and Naver, 1994). Strategic orientation reflects the company’s philosophy, how to conduct business through the values and beliefs in order to achieve superior performance (Gatignon and Xuereb in Zhou et.al 2005). These values and beliefs determine the resource to be used, the ability of individuals and state that resources and capabilities are a cohesive unity (Ray in Zhu et al., 2005), that Capability is intangible and is based-on interaction. Those Values are difficult to be imitated and duplicated. Those values are source of competitive advantage (Ray in Zhu et al., 2005). It means that the better the human capital investment, the better the company’s strategic orientation. Strategic orientation is a critical factor of the company’s competitiveness, therefore human capital investment plays roles in creating competitive advantage. This supports the validity of theories proposed by Ray in Zhu (2005); Chung Ming et al. (2008); Chung Ming (2011); Menguc et al. (2007).

3. The Influence of Human Capital Investment on Company’s Performance

   Human capital is defined as an employee who has the ability, experience, and knowledge to produce economic value for the company Lepak (1999); Snell & Dean (1992), Cheng-Kang and Yuan-Yin (2011), still in the same source Snell & Dean (1992) state that the knowledge and skills can create staff productivity. So, human capital refers to employees who have ability, experience and knowledge that provide economic value to the organization. Human capital investment is also one of the company's capital sources of innovation and renewal strategy, re-engineering process, as well as the dream of company resources, Bontis (1999). Human capital investment plays an important role on company’s performance. This supports the validity of theories proposed by Snell and Dean (1992); Lepak (1999); Endri (2010).

4. The Influence of Leadership on Strategic Orientation

   Bass (1990) states that the leader quality is often regarded as the most important factor that determines the success or failure of an organization Schein (1992) and Porter (1996) state that leadership is a key element in the effectiveness of the organization. The role of a leader is very strategic and important in an organization, thus of the challenges in developing organizational strategy is very important. This is in line Waddock and Graves’s studies (1997) which concluded that there is a positive relationship between Top Management assessment with strategic decisions. Leadership influences on strategic orientation and this supports the validity of theories proposed by David (2006), Bass (1990).

5. The Influence of Leadership on Company’s Performance

   Research has shown that leadership variable does not influence the company’s performance. This result is in line with the research proposed by Hannan & Freeman (1983), and Timothy and Robyn (2011) who find out that leadership does not influence the company’s performance. Leadership does not affect company’s
performance, an as a result so that the analysis does not support the hypothesis of the study, therefore the theory of Chen-Chen (2004) is not proven.

6. The Influence of Strategic Orientation on Company’s Performance

Strategic orientation is an outline of the company’s strategy related to the decisions and the behavior of the business unit to achieve higher business performance (Slater and Narver, 1990). Chung Ming et al. (2008) argue that strategic orientation is a critical factor of the company’s competitiveness in economic transition context. Strategic orientation affects the company’s performance. This supports the validity of theories proposed by Chung Ming et al. (2008), Morgan (2003), Hitt et al. (2001). The result obtained is different from that of the previous research about the relationship of the strategic orientation to the company’s performance conducted by Slater and Naver (1994), Ashikia (2010) in which the strategic orientation does not affect the company’s performance. The differences are caused by firstly the objects and the location of the study, and secondly the different concepts and measurement variables used.

VI. CONCLUSION

From the overall discussion of this study, it can be concluded that human capital investment will directly influence leadership, because good leaders have an ability to drive his subordinates with a variety of competencies in which competence gained through education, training and experience is needed. This study also concludes that human capital investment, leadership and strong strategic orientation affect performance. To increase competition by increasing performance. PT. Angkasa Pura would need to increase its human capital through education and training, to change to better leadership style and to to focus on a clear strategic orientation.

REFERENCE

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