The Effect of Country of Origin Service Quality and Brand Redeployment after M&A: The Case of Tiger Air-Mandala Airline

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ABSTRACT

The purpose of the research is to confirm that general country attribute; service quality and the redeployment strategies are variables needed by the company to smooth the process of the merger and acquisition. The main research framework was replicated from the work of Lee and Lee (2011) with alterations to suit the context of the current study. The data were collected from 150 respondents through offline and online questionnaire. Simple and multiple linear regressions are the hypothesis testing chosen for this study. ANOVA and Post-Hoc Duncan are performed to differentiate which of the five redeployment strategies is the best used by the company after done the merger and acquisition. The results conclude that general country attributes and service quality are positively linked to purchase intention in the case of Tigerair Mandala Airlines. Country of origin was found to have the most significant influence toward purchase intention, whereas service quality has the significant influence toward purchase intention.

KEYWORDS

Airlines, Brand Redeployment, Country of Origin, Indonesia, Service Quality

1. INTRODUCTION

Some companies have been successful in maintaining their performance after making acquisitions, while others have failed. One influencing factor that has become a key consideration for a company to do mergers and acquisitions is the company’s country of origin. The products and technology owned by a company can also become a consideration for big companies to merge with smaller companies as the products and technology are needed to boost the companies’ growth and increase their competitiveness (Lee, 2011).

In recent decades, many companies have conducted mergers and acquisitions as a strategy to grow and expand their businesses (Seth, 2000; Buckley and Ghauri, 2002; Shimizu, 2004). There are many reasons leading to a company’s mergers and acquisitions such as a changing market environment and the impact of globalization (Weber, 1996; Ashkenas, 1998; Boateng and Bjørntuft, 2003). The attractiveness of the products and technological advancements also can become a consideration for a big company to merge with a smaller company as the products and technology are needed to speed up the companies’ growth and improve their competitiveness in the market.
Indonesia is no exception to this trend. This can be seen from different companies which have done mergers and acquisitions in recent years. Although studies on mergers and acquisitions have been extensively conducted in a variety of contexts, studies involving service companies and airlines in particular are still sparse and very few in-between. For that reason, the merger of Tiger Air and Mandala is utilized as a context of this study as they were the first airline companies to conduct M&A in Indonesia.

Tiger Airways Singapore was incorporated on 12 December 2003. It began its ticket sales on 31 August 2004. The airline was the first to operate from the budget terminal at Changi Airport in order to achieve operating-cost savings and meet its cost structure. The merger between Tigerair and Mandala was executed in 2013 (XinhuaNet, 2013).

Despite the growing number of study on merger and acquisition and the impact towards the merged companies’ brands, few studies dealt with the impact on two companies which are based on two different countries. Balmer and Dinnie (1999) assume that many of the company also failed when doing merger and acquisition. Most of the reason is because of the difficulty to maintain the value of the brand names during the process of the merger and acquisition. Most of the company will seek that brand name is not an important part but in the reality the brand name plays an important role. A good brand name will become one of the predictor of the purchase intentions as well as the perceived quality (Ahmed and d’Astous, 1996).

This study’s framework and research model were adopted from Hsiang-Ming Lee and Ching-Chi Lee’s study (2011) on mergers and acquisitions and its impact on the brand redeployment strategy. The current study, however, is aimed at investigating whether service quality and the brand redeployment strategy will impact consumers in purchasing the service provided by Tigerair-Mandala.

2. LITERATURE REVIEW

2.1. Introduction

Low-cost carriers are carriers or airlines which are characterized by their specific brand, pricing, distribution, airport, network, classes, equipment, and the target group. The low-cost carriers or airlines usually offer affordable tickets due to their ability to reduce the cost complexity.

When big companies merge with smaller companies, there is no doubt that some of the variables would also become a consideration. Technology has become more important in people’s lives, as it also enables people to easily access information about the product during the process of purchasing the product (Ozretic-Dosen, Skare, and Krupka 2007).

Another variable that is also considered important by companies to do mergers and acquisitions is the country of origin of the company that is going to be merged by a bigger company. In some cases, the image of the country of origin from the companies that are going to be merged can also affect the overall evaluations and perceptions of the customers toward the product (Thakor and Katsanis, 1997). The impact of the country of origin also can affect the airline industry. From the example given above, most of the airlines only conducted mergers with airlines that had a similar level of country of origin image. This would mean that the higher the country of origin image, the higher the chance for the company to do mergers and acquisitions.

Besides the impact of the country of origin image, there is also another variable that plays an important role in mergers and acquisitions. Balmer and Dinnie (1999) argued that many of the companies failed when doing mergers and acquisitions due to a variety of reasons, but especially the failures were caused by not establishing a prominent brand identity. The primary reason is because of the difficulty to maintain the value of the brand names during the merger and acquisition process.
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