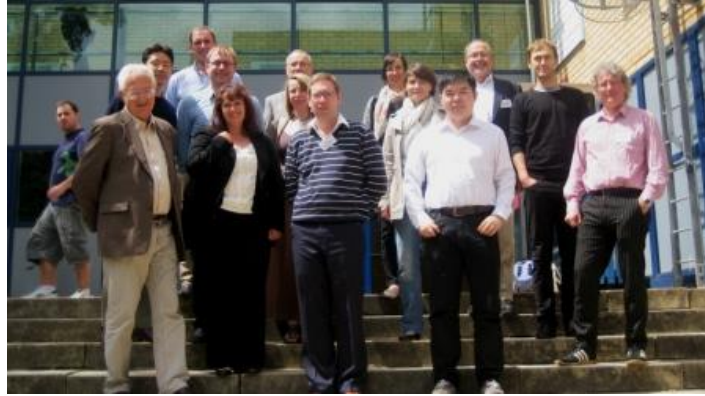


The Future of Aviation: The Airline Industry at the Crossroads

1 July 2011

Workshop Report



This workshop brought together researchers and practitioners from several countries to discuss and investigate current issues and future challenges of the airline industry. Scholars from Germany, the Netherlands, South Korea and from the University of Surrey's Management School gave six presentations on topics ranging from 'New Business Models' and 'Employer-Employee Relations' to 'Alliance Performance' and the increasing 'Internationalization' of the industry.

Each presentation had a slot of one hour which included discussions and comments. The papers were policy oriented and academically challenging. Both quantitative and qualitative data were presented, and comparative perspectives were utilised in all of the contributions.

Many participants of this workshop were members of the [ICAROS Research Consortium](#), but there were also a number of other participants invited who were not present at previous meetings of this group and will perhaps not come back when this group convenes again in the future.

The papers

Ayse Saka-Helmhout, University of Surrey; Florian Becker-Ritterspach, University of Groningen; Knut Lange, University of Surrey; Mike Geppert, University of Surrey

Organizational Responses to Contradicting Institutions in the European Airline Industry.

Institutional theory has traditionally placed its focus mainly on explaining similarity and homogeneity in organizational fields. The interest has, for a long time, been on why organizations in a particular field become more similar rather than on how they respond to multiple, fragmented, and constantly evolving institutional systems. The implications for organizational action of belonging to multiple institutional fields have only recently attracted attention in the Varieties of Capitalism (VoC) literature. While multiplicity of institutional demands can generate attrition and conflict, it may also open up avenues for organizational change and creative recombination. VoC scholars have recently sought to explain how such multiplicity creates room for organizations to engage in innovative changes (e.g. Jackson, 2005; Crouch, 2005).

We aim to contribute to this development by exploring how and why firms differ in their organizational response when they are embedded in multiple institutional fields and are confronted by a multitude of potentially contradicting demands. Focusing on the airline industry, we ask how the combined exposure to national logics (i.e. legitimacy requirements stemming from the institutional context, in particular employee and union relations) and to market logics of the field (economic pressures to lower costs) play out in the configuration and change of firm-level strategy

Dieter Plehwe, WZB - Science Center Berlin

The Transnational Dimension of Conflict in Employer-Employee Relations in the Airline Industry

During the 1990s a controversial debate juxtaposed positions pertaining to the question of convergence or continuing divergence of Human Resources and Industrial Relations (IR) systems in the European airline industry. The paper looks at the decade following the deregulation of the industry and examines if convergence on strike activities is a persisting phenomenon. The findings suggest a somewhat lower intensity of strikes on the one hand; and a universalization of the pattern of strike activities across the countries previously characterized by low-conflict labour relations (e.g., UK and Germany), on the other. This paper thus argues that the convergence of strike activities is indeed a common characteristic of post-national IR systems in the European airline industry. The findings are supported by interviews with labour representatives who pointed to the increasing amount of tensions that are not expressed in strikes or other publicly visible labour conflicts.

Arndt Sorge, University of Potsdam

Internationalization, Organizational Change and the Societal Effect: The International Business and Management Lesson from Lufthansa

The international business and management lesson from Lufthansa's unique development over time, notably in the post-war period, leads to the following proposition: Early exposure to international competition, in a market which limits concentration and in which a highly internationalized product/service and core technology come together with persistent national and local regulation and other assets, will lead to a particular leverage of domestic resources in the way the international strategy is devised, and the success that it has. In other words, societal effects strongly interact with internationalization strategies, to produce competitiveness, in this particular situation. This is founded on an analysis of available data on strategy, profitability of business activities, enterprise growth by take-over, share participation and alliance formation, as well as on qualitative accounts.

Knut Lange, University of Surrey; Mike Geppert, University of Surrey; Ayse Saka-Helmhout, University of Surrey; Florian Becker-Rittersbach, University of Groningen

The Adoption of the Low Cost Business Model in the Aviation Industry and its Socio-political Implications Compared

Since the mid-1990s, the European airline industry has undergone a massive transformation. The traditional business model of the full service carriers (FSCs) has been challenged by low-cost/no frills carriers (LCCs). The economic success of LCCs and the fact that they have attracted a significant percentage of business customers have forced FSCs to reconsider their established business models and react to this new competition (Delfmann et al. 2005; Bamber et al. 2009). This paper analyses to what extent FSCs in two countries – British Airways (BA) in the United Kingdom and Lufthansa (LH) in Germany – have adopted elements of the LCC model over time and how this process has been influenced by these carriers' national institutional contexts of a liberal vs. a co-ordinated market economy. The results show that the adoption of the LCC model by BA has been - in comparison to LH - far reaching and this has been due to the fact that the management is in a more powerful position than trade unions in the UK's large and medium size enterprises, which corroborates the 'Varieties of Capitalism' (VoC) perspective (Hall and Soskice, 2001). On the other hand, however, in some important dimensions LH has adopted

the LCC model to a greater extent than British Airways – for instance by introducing their own low-cost carrier in the market – which shows that the strategic leeway of actors is larger than expected by the VoC perspective. Furthermore, the results demonstrate that the adapted business models of both BA and LH are not homogeneous but characterized by significant tensions.

Taeyoung Yoo, Hankuk University of Foreign Studies

Multilateral Relationships in an Alliance: An Analysis of Airlines in a Societal Context

This paper examines the reason why airlines join a specific alliances (Oneworld, SkyTeam or Star Alliance), and whether cultural heterogeneity or homogeneity have an effect on alliance performance. The data used cover a period of 19 years (1900 – 2008) and include airlines which are firmly integrated in one of the major alliances and other airlines which have stayed independent. The results of this study confirm that (1) membership in an alliance is associated with high performance, that (2) a high level of cultural heterogeneity of the alliances produces more conflict than what is usual in more homogeneous alliances, and (3) that the same characteristic – high-level of alliance heterogeneity – is also associated with higher individual member firm and alliance performance compared those alliances which are more homogeneous in terms of cultural background of the alliance members.

Lisa Arnold, WZB Science Center Berlin

Airbus at the Crossroads. What does the Future hold?

Airbus Industries is a distinctive case of a large and complex transnational enterprise that did not arise from one clearly dominant centre in one country. It has been subject to pressures for both international concentration and integration, on the one hand, and conservation of national and local facilities and responsibilities on the other, responding to conflicting pressures for international efficiency and for the distribution of expertise across many sites in many countries. Furthermore, enterprise organisation has changed substantially over time. The paper analyses such countervailing pressures, how they were resolved and kept Airbus from falling apart and actually helped it grow their business.

Themes and Issues Discussed at the Event

The general discussion of this workshop was focused on the overall trends and current strategic developments in the airline industry. Various issues and themes

were covered, including the long-term business philosophies of airlines such as BA, Lufthansa and Austrian Airlines; differences and similarities between strategic approaches of flagship and low budget airlines; changes in work organisation and employment relations in the airline industry; industrial relations and the role of unions; the changing role of pilots and their relationship with cabin crew members; and new managerial and strategic approaches in the industry.

Possibilities to continue and finance ICAROS network activities were discussed towards the end of this workshop. Florian Becker-Ritterspach, who just received an appointment as professor in International Business at the German University in Cairo, offered to explore the option of holding the next year's ICAROS workshop at his institution in Cairo.

Outcomes Including Publication Plans

This workshop developed new ideas and will help the ICAROS research consortium develop further. The group will continue to produce high-level academic papers and collectively bid for funding their research activities, e.g. by EU resources, in the near future.

The paper by Ayse Saka-Helmhout will be submitted to *Organization Studies*; the paper by Knut Lange will be submitted to the *Journal of Management* (possibly *Long-range Planning*); and Arndt Sorge plans to write a book on Lufthansa's long-term approach (compared to British Airways and Air France).

Acknowledgements

The financial support of Surrey University's Institute of Advanced Studies (IAS) is greatly appreciated. Without it this workshop would not have been possible. Many thanks are particularly owed to Mirela Domic (from IAS) who managed the administrative side of this event. Her advice, readiness to 'go the extra mile' and her good spirits were always enormously helpful to make it a big success. Prof Mike Geppert was the other 'hero' of this event. With 2 hours warning, he chaired the discussions throughout the whole day as the academic organizer of this workshop, Prof Reinhard Bachmann, could not be present due to an emergency tooth operation on the day of the event. Special thanks also go to the non-academic participants from the industry whose views and ideas are indispensable for any practically relevant research.

The workshop was organised by Prof. Reinhard Bachmann, Prof. Mike Geppert, Dr. Ayse Saka-Helmhout and Dr. Knut Lange, School of Management, FML, University of Surrey.

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