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Strategic Alliances Among International Airlines And Their Implications For Organisational Change

by

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ABSTRACT: Globalisation is an inevitable path for many types of organisations as they strive to attain and defend competitive advantage and strategic alliances are a necessary part of this process. Cooperative behaviour and simultaneous competition in several continental markets is not a new phenomenon in aviation, but the current popularity of alliances among the major carriers has been interpreted as a form of globalisation. A common assumption is that these alliances present ways for the airlines to circumvent the restrictions present in the regulatory framework. This paper argues that globalisation, as it is more widely understood in modern management, involves much more than the development of an all-encompassing network. Exploitation of the benefits of globalisation requires a change in thinking about the relationships within and between organisations. Strategic alliances have many advantages over mergers and acquisitions in this context. The paper argues that most of the current airline alliances are "hollow organisation", but that genuine strategic alliances are likely to be formed in more competitive conditions. These genuine strategic alliances can deliver benefits to the industry and its customers, but policy makers must recognise the growing complexity of new forms of organisation in the airline industry.

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Introduction

Globalisation has resulted in international trade progressing beyond the stage where national firms specialise in finished products. Specialisation now occurs in the production of components and the modern trading enterprise engages in global sourcing (Frank, 1995). Improvements in communications and transport have made this possible, but competition, rising customer expectations and the need to expand markets beyond national boundaries leave many businesses with no alternative but to "go global". Growth ambitions can be accommodated through merger and acquisitions, but the imperative to seek out the most efficient ways to serve markets is leading to new forms of organisation and relationships among organisation. Collaborative relationships have made it possible to serve a global market, to achieve economies in production, to employ the latest technology and to gain access to markets. As a result, the strategic alliance has been integral to the globalisation process in a diverse set of sectors ranging from clothing and footwear to aeronautics (Ohmae, 1989; Lorange *et al.*, 1992).

Against this background increasing attention has been paid by researcher on attempts in the airline industry to globalise (Gialloreto, 1988; Doganis, 1994). While it is true that the larger international carriers compete simultaneously in several inter-continental markets, restrictions on foreign investment and commercial operating rights generally deny airlines the opportunity to become global businesses in their own rights. Airlines do not have free access to markets, nor do they have the freedom to invest and operate wherever they want. The principles of comparative advantage do not prevail in the trade in airline services and consequently, airlines are prevented from developing efficient global networks. Alliances allow airlines to circumvent restrictions on market access while simultaneously permitting them to co-ordinate schedules and to pursue other practices designed to reduce costs and improve customer service. The strategic alliance has become the key instrument for global expansion.

The regulatory response so far has been relatively tolerant. The United States has had the clearest policy of accepting alliances that operate within competitive markets. When an alliance results in dominance of a market, the US approach has been to reduce any barriers to entry entrenched through route allocations and control over landing slots at hub airports. Other governments have tended to deal with individual cases on their own merits. Airlines have justified the alliances on the basis of better service and lower costs. However, the regulators and the industry they oversee both share concerns about where the alliances are leading and the ability of the regulatory system to respond to evolving conditions (Burton and Hanlon, 1994; Alamdari and Morrell, 1997). Furthermore, the problems are becoming increasingly complex as coalitions among key airlines fluctuate and as it becomes more and more difficult to define the relevant market for the purposes of analysing concentration. While airlines are developing network strategies, the regulatory framework tends to focus attention on point-to-point services.

The proposed alliance between American Airlines and British Airways has brought matters to a head in trans-Atlantic relations when the regulatory bodies in the United States, the United Kingdom and the European Commission each proposed different requirements. Australia has been reluctant to approve an extension of the code-share agreement between British Airways and Qantas Airways (Findlay *et al.*, 1997). Airlines are under increasing pressure to demonstrate that alliances are not anti-competitive and

that they deliver long-term benefits to consumers. The initial focus of researchers was on the formation of alliances and their role in globalisation (Pustay, 1992; Burton and Hanlon, 1995; Park *et al.*, 1995). Code-sharing has been a key instrument used in airline alliances and there is considerable interest in the way this device is used in competition and its value to consumers (Humphreys, 1995; Hannegan and Mulvey, 1996). A particular theme is how alliances, especially code-sharing, have an impact on market shares and on the performance and strategic positioning of the carriers (Oum *et al.*, 1993; Park, 1997). Further contributions have examined the process of alliance formation and the conditions that favour success (Flanagan and Marcus 1993; Park and Cho, 1997).

A common theme is that strength and permanency are achieved through exchanges of equity (Tretheway, 1991). This results in the airlines becoming "mutual hostages" and minimises the risks of partners pursuing opportunistic actions. Merger and acquisition can be used to address these problems, but restrictions on foreign ownership in the international airline industry favour the strategic alliance. However, the role of equity has been overemphasised. We argue that this has diverted attention away from contributions in management theory that explain how contracts, constructs and property rights are being used to forge new types of relationships within strategic alliances. It is common for partners to enter into a series of alliances and therefore, it is necessary to consider this organisational form in a dynamic setting (Gulati, 1995).

While we do not deny there is a strong basis for the presumption that alliances among international airlines are largely the result of regulatory conditions, we believe it is useful to explore the question "would alliances persist in competitive world markets?". On the basis of experiences in other forms of business and our understanding of the economics of airline operations we consider globalisation and alliance formation to be a natural condition in the airline sector. By investigating the likely form of alliances under competitive conditions we aim to shed insights into the benefits that alliances are capable of delivering. However, this raises fundamental questions about the nature of airlines as organisations and about the way they are likely to evolve in response to competitive pressures in the globalisation process.

Globalisation, Strategic Alliances and Airlines

Co-operative behaviour in the international airline industry has been evident ever since pioneering carriers began to develop their networks and airlines they do compete simultaneously in several continental markets. However, this does not mean that airlines have been forming "strategic alliances" and "globalising" throughout their history. These terms have particular meanings in organisational theory, and we commence with an explicit discussion about these topics before considering their implications for contemporary behaviour in the airline industry.

In the post-war period, the General Agreement on Trade and Tariffs (GATT) promoted free trade by establishing a set of rules and principles that were non-discriminatory and it sought to minimise impediments to trade through government regulation. Nevertheless, the dominant model for a successful business was to develop a profitable domestic

market and exporting played a relatively minor role. During the 1970s and 1980s, multinational corporations came to the fore, but the approach was to replicate production processes with strong control from the centre of the organisation. Often the multinational corporation invested abroad to take advantage of lower costs of production and output, especially in developing countries. The global enterprise represents a higher order of evolution in response to a set of environmental conditions.

The emergence of a large middle class, most notably in Asia, has expanded markets at the same time, increasing the power of the consumer. Markets tend now to be "pulled" by consumers rather than being "pushed" by suppliers. Barriers to competition have been reduced within and between economies so that businesses are under pressure to deliver better quality with higher levels of customer service at lower costs. Many businesses have found that their growth ambitions cannot be realised unless they expand out of their home markets, especially those firms that serve niche markets with highly specialised products and services. Harmonisation of product standards also has widened the scope for global competition. In some industries, the investment required to research and develop new products has escalated, and global expansion allows businesses to tap a wider pool of expertise as well as making it possible to spread the costs and risks.

Taking advantage of lower costs of production remains a powerful incentive to invest abroad, but the approach now is to source components and services from the most competitive suppliers. Developments in communication and information technology have made it possible to co-ordinate diverse activities more easily while delivering a greater amount of information to consumers. Under these conditions, intra-industry trade has boomed on a world-wide basis and even small to medium-sized enterprises have become important within global supply chains. The distinctive features of global businesses are in the ways they plan and organise sourcing and in the scope of their marketing.

Is it true then that the international airline industry is an example of globalisation? Deregulation of domestic travel markets has increased competitive pressures and in many economies has resulted in greater integration of domestic and international operations (Hooper, 1997). In the United States, at least, the major carriers have pursued growth abroad as it appeared the domestic market was approaching maturity during the early 1990s (Pilarski and Thomas,1995). Information technology, especially in the form of computer reservation systems, has made it possible to expand the scope of distribution systems and to compete effectively in more distant markets. Competitive strategies built upon hub-and-spoke operations, frequent flyer programs, and code-sharing have increased the marketing strengths of the large carriers. As travel markets have expanded with rising incomes, destinations have come into direct competition with each other. Some of the traditional destination regions also have become important sources of travellers. There has been a convergence of "domestic " and "international" tourism markets and most of the world's largest airlines in the 1990s have developed complementary domestic and international networks as well as distribution systems.

All of these factors suggest that the "globalisation" is a *natural* state for the airlines. It also is true that increasing competition has forced airlines to reduce their costs. In some notable cases**,** airlines have responded to this by adopting global sourcing practices. Cathay Pacific, for example, was reported to have saved US$25 million a year when it began employing its air crews from bases in the USA, UK and Australia in 1996 (Hewitt,

1996), having already located its data processing in Australia. Lufthansa has suffered from high labour costs in Germany and was considering how an alliance with a US carrier would allow it to reduce overheads by sourcing in North America (McMullan, 1992a). BA Engineering and Lufthansa Technik specialise in performing overhaul operations for other airlines. Atlas Air is another to take advantage of outsourcing initiatives by developing a strength in air cargo operations.

However, airlines are not free to mobilise their skilled workforces on a worldwide basis due to varying industrial legislation and restrictions on “doing business”. There are limits on how much aircraft maintenance, catering, refuelling, administration and training can be provided by suppliers in other economies. Problems associated with co-ordinating crew rostering led to Cathay Pacific abandoning its attempt to establish a crew base in Bangkok for short-haul routes in 1997 (Ballantyne, 1997). The opportunities to reduce costs and improve customer service lie mostly in network development and the optimal use of aircraft within those networks.

In situations where airline markets have been deregulated, carriers have used mergers and acquisitions to rationalise networks and to pursue growth and diversification strategies. The primary motivation for a merger is to increase the combined wealth of the enterprises involved, increase the wealth of shareholders and create opportunities for improved operations. Mergers are highly visible and represent lumpy investment decisions in which the buyers and sellers consider they will be better off because of the synergies between the two organisations and the efficiencies that can be achieved under a single management. Competitive strength increases through combined marketing, production and distribution in addition to improved financial economies in the form of lower transaction costs and better coverage by financial analysts and media. The merged entity is able to eliminate excess capacity and perhaps is able to exert increased market power.

However, strategic alliances can be used to pursue these benefits and they can give competitors a low-cost route to gain new technology and access to markets. High fixed costs can be shared and complementary resources can be brought together. The sharing of technology and information can be linked to long-term commitments that require complex integration and large capital costs. The joint venture is one option for managing this integration, but strategic alliances rely on a more co-operative arrangement. Given that many strategic alliances involve equity swaps to reduce risks of dissolution and opportunistic behaviour, it is necessary to be clear about what distinguishes an alliance from a merger or joint venture.

Definitions about what constitutes a “strategic alliance” abound in the literature, but there are two essential characteristics that need to be considered. Firstly, the emphasis on “strategy”; one business chooses to cooperage to a greater or lesser extent with another in order to pursue its corporate objectives and/or in response to opportunities/threats arising in the external environment. Secondly, businesses become “allies”; each partner maintaining a separate identity with scope for independent action and dissolution. Mergers and acquisitions definitely are not strategic alliances and this is further elaborated below. Joint ventures and equity swaps have many of the necessary characteristics of alliances, but they are difficult to classify. The scope of the strategic alliance includes arrangements to pool resources, to ally and link systems, businesses

become better "PALs" through strategic alliances (Kanter, 1989). In summary, strategic alliances are characterised by:

- a coalition of two or more organisations in an on-going relationship, but each is free to exit the relationship
- specific goals/objectives
- the pursuit of mutual, though not necessarily equal, benefits
- sharing resources or, at least, integrating resources to improve performance
- sharing risks and rewards and decision making
- covering only part of the activities of each partner so that each maintains a separate identity, with some functions not included in the agreement
- systems that are difficult to break down into constituent elements
- a concern for long-term issues facing members to develop and maintain a sustainable competitive advantage

Strategies are relevant only when there is the potential to create a degree of market power. In a highly competitive situation the enterprise has no option but to seek minimum costs and accept market prices. The adoption of a strategy suggests there is a choice and that the alliance will have scope to influence the market. However, the issues of control and scope for independent action raise fundamental questions about the nature of organisational forms emerging in response to globalisation. We will pursue these below, but first draw attention to some characteristics of airlines that make them candidates for alliance formation.

Potential of Airlines as Candidates for Strategic Alliance

First and foremost, the airlines have a history of co-operative behaviour. For example, in 1933 Qantas, then a small regional airline, entered into a joint venture with Imperial Airways to win a contract to carry mail from Singapore to Australia (Findlay 1995). The result was Qantas Empire Airways, and the alliance partners were able to counter the development of a rival service proposed by KLM. As the international airline industry grew, collaboration played a vital role in fostering markets, in improving the economic positions of the carriers and in developing and transferring technical skills as carriers shared technical knowledge, performed maintenance on each other's aircraft, and co-operated in training. It is common for one airline to carry out ground handling and passenger processing on behalf of others. Also, airlines sell interline tickets as well as pooling revenue on routes and co-ordinating flight scheduling.

However, with advanced technology collaborative behaviour now code-sharing, block-booking arrangements, common computer reservations systems (CRS), joint frequent flyer plans, and equity swaps. These practices have been interpreted as manifestations of strategic alliances in the formation of global airlines (Gialloreto, 1988; Tretheway, 1991). The rush to forge alliances in Europe and the United States in late 1992 led one analyst to question whether they were simply a product of financial stress in the airline industry and panic about "being left isolated" (McMullen, 1992b). Others have observed that the process of alliance formation has had the characteristics of an "epidemic" with serious

doubts about the claim that they are "strategic" (Alamdari and Morrell, 1997). The distinction between marketing alliances and genuine strategic alliances is an important one. Clearly, co-operative behaviour is pervasive in the airline business but it is questionable that many of the current alliances would prosper in liberal aviation markets.

Deregulation of the domestic airline industry in the United States provided hard evidence that hub-and-spoke networks allow carriers to improve productivity while increasing the effectiveness of marketing. The strategy of consolidating traffic at hubs requires that some routes be considered as the line haul and others serve a feeder role, and this hierarchy is evident in domestic markets through the distinction between major and regional airlines. Profits in the airline industry are highly leveraged around the break-even load factor and connecting traffic is important for survival at all levels of the airline industry. As a result, many of the most important competitive battles are fought in creating "seamless" travel for connecting passengers, for example, by co-ordinating schedules and transferring baggage. The customer is sold a single ticket with the designation of the major carrier (code-sharing) and the entire journey accrues frequent flyer points with the major carrier.

Vertical integration has its attractions and there are many cases where the major airline has acquired the feeder airlines, but it is possible to achieve a great deal within broad marketing alliances (Lovin 1986; Oster and Pickrell, 1987). Despite the need to integrate regional and major carriers' operations and marketing, there are important differences in terms of the density of markets, sector distances and the size of aircraft. Cost structures and organisational cultures can differ markedly and even when the major carrier has acquired the regional airline, separate identities are maintained. The regional airline improves its marketing strength through the association with the major carrier, but it still needs to maintain its local identity. It is important in these arrangements to allow the smaller partner the flexibility to manage in a way that is appropriate to its circumstances and not be swamped by the policies adopted by the management of the larger carrier.

These lessons from domestic deregulation have implications at the international level, but there are some differences to consider. The broadening and increasing integration of domestic and international travel markets results in similar hierarchies of feeder and trunk carriers, although it is not clear that this will be expressed to the same extent in dominant hubs. Some of the major hubs are congested and there are constraints that prevent expansion of capacity. Also, high frequencies are not as important in long-distance travel and there is a greater incentive to open direct routes versus consolidating traffic through hubs. Ethnocentric behaviour is strong in the travel market and international airlines are very reluctant to abandon their national identities. More significantly, the cultural differences that would need to be accommodated within the one organisation pose a major challenge for the global airline.

In the absence of any restrictions on foreign investment in the airline sector, it is likely that mergers and acquisitions would occur and that networks with feeder and trunk services would develop to some degree. However, mergers and acquisitions would encounter major problems in terms of strategic and cultural fit as they attempt to mesh incompatible strategies, values and leadership styles. Alliances offer advantages in this context. Globalising airlines can use alliances to gain access to markets with less commitment of resources and a means to accommodate these problems. Strategic

alliances go further than co-operation to link services. Through organisational change, strategic alliances make it possible to reap the full benefits of globalisation. The global alliance makes it possible to customise products to the needs of national markets while simultaneously, optimising operations and sourcing.

It follows from the review above that the overriding motive for the formation of strategic alliances is the urgency to manage a persistently, changeable environment (Quinn, 1992). With this in mind, the uncertainty regarding the future of an alliance is ever-present. It can be concluded from the review above that airline alliances are 'hollow' networks with little genuine organisational integration amongst members. The key defining feature of the strategic alliance is the degree of integration required to share decision making and resources as well as the willingness to pursue long-term competitive advantage. On this basis, we first examine this latest concept of organisation, most importantly focusing on the nature of the relationship between partners and conclude with a set of propositions associated with the development of strategic alliances.

Strategic Alliance as New Concept of Organisation

Intelligent enterprises

As previously stated, strategic alliances primarily are an aggregation of autonomous organisations that essentially retain their own identity and governance. The purpose of forming strategic alliances focuses on commercial objectives, strategic vision and leadership and ways of gaining a competitive advantage in volatile markets. More specifically, strategic alliances seek to acquire a form of organisational flexibility to adjust to change, to develop the organisational capacity (skills and resources) to develop successful products and services and to achieve operating economies and efficiencies (Powell, 1987).

In understanding this new concept of organisation, Quinn (1992) referred to strategic alliances as 'intelligent enterprises' that comprise complex, global information and decision support systems superseding many of the control and operational functions of their conventional counterparts. These issues in turn lead to a new concept of organising in terms of recreating a 'flatter' hierarchy with a membership-orientated culture concentrating on shared values, new learning and knowledge, and integration (Webster, 1992). The manner in which this is achieved varies from one organisational context to another (Ring and Van de Ven, 1992) and will be elaborated on below.

Transformational leadership is an important aspect in forming strategic alliances and managing change within them. The pressure to align enterprises brought about by new market structures and the extension of market boundaries beyond national ones is redefining the future organisational form in the airline industry. There is increased pressure for enterprise leaders to understand the organisational prerequisites for successful alliances such as a well-developed infrastructure of culture, process of organisational learning and rewarding ways to achieve integration amongst alliance partners.

Membership culture

In a strategic alliance, each enterprise represents a culture that has a varying degree of influence over its members' beliefs and behaviour. Enterprises ' ..like persons, have values and these values are integrated into some coherent value system.. in any [enterprise], the members generally have a set of beliefs about what is appropriate and inappropriate organisational behaviour' (Goodstein, 1983, pp. 203-4). In the same way that personality is not a direct explanation for a person's actions, enterprise culture is only one factor contributing to the performance of an alliance. Culture is related to the concept of 'strategic fit' as well as to the question as to the extent of similarity and diversity that exists between potential enterprise members in a strategic alliance. One assumption is the greater the similarity between the value systems of potential members, the more likely they will find accord. Enterprises whose cultures are more similar to than different from each other will develop alliances more timely and successfully (Harrison, 1972; Malekzadeh, 1988), and have greater financial success (Porter, 1985).

New learning and knowledge

An important aspect of developing membership culture is the process of organisational learning that alliance members engage in jointly and separately (Arygris, 1977). Increasing competitive pressures are fuelling concern over the extent to which alliances can 'learn' jointly. One perspective is that strategic alliances are less likely to foster learning when exposed to competition, instead levering their market position to obtain competitive advantage (Barnett and Burgelman, 1996). The fundamental dilemma for any strategic alliance is how to maintain its enterprise identity while simultaneously developing the alliance. Alliance development generally calls for substantial shifts in maintenance strategies to effect the active support and contribution of alliance members.

Strategic alliances require that members convey their learning to one another, develop shared understandings and externalise what they have learnt (Lyles and Schwenk, 1992). Organisational learning occurs when the actions of one party, in this case an enterprise member, contests the values of another and there is pressure to replace 'their' ideas with 'different' ones. A high level of cultural synergy may inhibit organisational learning where enterprise members 'think' in a similar way. In other words, too much similarity may constrain the potential benefits of the alliance because too little in terms of added-value and innovation is being contributed by enterprise members to the alliance. Others have argued, for example Parkhe (1991) that inter-firm cultural and organisational diversity adversely affects performance. However there is another perspective, cultural synergy may not equal cultural similarity. Two dissimilar cultures may reach synergy through the process of 'double-loop' learning (Arygris, 1977).

> *Members do not agree upon clear boundaries, cannot identify shared solutions and do not reconcile beliefs and multiple identities. Yet, these members contend they belong to a culture. They share a common orientation and overarching purpose, face similar problems, and comparable experiences. However, these shared orientations and purposes accommodate different beliefs and incommensurable technologies, these problems imply different solutions, and these experiences have multiple meanings... Thus, for at least some cultures to dismiss the ambiguities in favour of what is clear and shared is to exclude some of the most central aspects of members' cultural experience and to ignore the essence of their cultural community.* (Meyerson *et al.*, 1991, pp131-2)

In other words, learning jointly allows 'culture' to be 'unbundled' into its important components in a way that might not occur within a single enterprise. Yet, learning is often a slow process simply because, as enterprises are currently structured, they retard the transferring of information, ideas and expertise amongst partners. Organisational learning is instrumental to collective efficacy defined as the belief of enterprise members about whether they can perform successfully or not within a strategic alliance (Bandura, 1977). Alliances that have a low sense of efficacy are more inclined to respond negatively to organisational change than those with high efficacy (Beehr and Newman, 1978). How is high efficacy achieved?

Consensus- building with interactions amongst members plays a significant part in developing collective efficacy. Strategic alliances provide 'blurred boundaries' for learning to occur. The process of developing collective efficacy in alliances is assisted by 'skilled organisers' who span the enterprise boundaries of each member and transfer learning (Brown and Hosking, 1986). Innovations by one member need to translate into alliance-wide innovation. The alliance needs to be structured in a way that facilitates the emergence and action of these types of liaison roles for organisational success.

Organisational Prerequisites for Successful Alliances

Organisational performance and organisational outcomes

In practice, alliances have had a high failure rate and this has been no less the case in the airline business (Flanagan and Marcus, 1993). This has led to a focus on the factors that contributed to the formation of the alliance, but these may have little do a failed outcome. Success of a strategic alliance is predicated on organisational performance (OP) and organisational outcomes (OC). OP is a function of actions congruent to organisational goals. Action takes the form of establishing a shared vision, communicating clearly, building inter-member trust, collaborating and sharing knowledge and decision making. These processes grounded in an impelling business strategy are essential from the outset of alliance formation (Kanter, 1994).

Performing successfully in a strategic alliance not only involves capability but also choices, for example, the choice to expend effort and to what degree as well as the choice to commit resources including knowledge and trust. Organisational outcomes include the degree to which enterprise members have met the goals and the extent to which they are satisfied with the strategic alliance. If one of the members perceives the alliance to be unfair the choice about their potential investment will be modified. The relationship between OP and OC is best understood in terms of the concept of organisational integration.

A strategic alliance rests on the premise that each member brings unique commitments to the alliance, requiring a process of integration. To integrate member commitments, each constituency in the alliance needs to understand and share in a collective mission. Success has to be grounded in the integration of human resources which leads to a greater probability of strategic and operational attainment. However, if the interrelationship between the partners is based largely on self-interest, competition and overt conflict, the members' attachment to the alliance is loose. Conversely, when the relationship between the constituencies is collaborative, partners become engaged in an alliance characterised by collective interest and equality. One of the difficulties in integrating the separate goals of various members in an alliance is the fundamental conflict over their individual control of scarce resources. Sources of conflict include information (technical expertise, quality); capital, physical resources, time (to learn) and intangible assets (industry reputation (Barney, 1986; Hill, 1990). The relative control of these resources is reflected in each transaction within the alliance. Conflict over resources also mirrors the degree of trust amongst members.

Alliances based on exchange

To explain this point fully, a relationship of exchange is compared to that based on integration. Strategic alliances are firmly established on a relationship of exchange highlighting the interdependence between the enterprise members An alliance based on 'exchange' is founded on a reciprocal relationship, with the members' contributions each linked to the other based on fair exchange of contributions, and outcomes proportional to investment. Trust is also an important part of an exchange relationship in terms the

extent to which each members believes that the other(s) will meet their commitments to the alliance. Exchange sets up a competitive context, the nature of which is characterised by each members in the alliance declaring 'If I give you something, I want something in return'. The outcome subsequently leads to 'winners' and 'losers', depending on which member is best able to maximise their control over scarce resources. 'Losers' are more likely to resort to threat as a form of reprisal. Strong competition and fear of reprisal can be minimised through structuring the alliance along equitable lines. This is achieved by, for example, ensuring that each party has equal access to resources and opportunity to control them. In an alliance based on exchange, there is an element of uncertainty that is reduced with each transaction. Under these conditions, the culture of the alliance is at best 'co-operative' but remains a 'hollow' network as we witness amongst carriers at present.

Alliances based on integration

Alliances that go beyond exchange and strive for an integration of interests, goals, resources and values take on a different 'rationality' from those based purely on self-interest. A number of researchers (Johanson and Mattson, 1988; Malekzadeh, 1988) have stressed the significance of integration as an ideal process for strategic alliances. Consultants Booz, Allen & Hamilton (1985) reported that cultural integration was the most important factor, ahead of financial and strategic factors, in the success of acquisitions.

A strategy of integration establishes common interests amongst members through a process of ongoing negotiation. With the understanding that not all alliances are founded totally on conflict or calculative action, integration is the approach most likely to lead to the initiation, development and maintenance of a strategic alliance. An integrative strategy therefore encourages a 'negotiated order' within the alliance (Strauss, 1978). Negotiation is aimed at the maximisation of equitable outcomes for all members. Negotiation allows each constituency not only to preserve a cohesive social relationship but also to dissent without fear of reprisal about contribution and outcomes in the alliance. Members experience a sense of working towards a 'commonality' characterised by 'what is good for us is good for the alliance'. Integration is associated with enhanced efficacy and ultimately organisational capacity of the alliance. Strategic alliances based on integration are genuinely adding-value for customers and shareholders.

Walter (1985) found culture is a significant factor in the performance of hybrid organisations. A strategy of integration involves a major 'jelling' of distinct cultures, workforces and orientations. Integration requires a collective orientation to strategic purpose implying a mutual understanding and acceptance of the goals and strategies by various members. An integrative strategy addresses four main factors that affect the performance outcomes of alliances: breadth of purpose, boundary determination, value creation process and stability mechanisms (Borys & Jemison 1989). The purpose of the alliance is dynamic and varies over time as markets fluctuate, technologies change, legislation is modified and work structures are redesigned.

So what do successful strategic alliances require? If the means to the end have changed (as evidenced by alliances, mergers and acquisitions), new strategies are called for,

requiring a renewed 'responsiveness' from enterprise members who are located either at the 'centre' or its boundaries. Strategic alliances often mean that people essentially have 'divided' loyalties and ambiguous commitment. Alliances will be less 'hollow' and successful when:

- new ways of thinking and doing emerge, and blockages are 'unfrozen'
- underlying conflicts are identified and addressed
- there is an emphasis on the interactive processes among people
- people engage in genuine problem solving
- tensions between dominant and weak logics and between old and new ones are overcome
- stakeholders who possess the most appropriate organisational knowledge are identified
- it is predetermined under what conditions it is appropriate for the dominant member to possess information without sharing it
- psychological contracts support and reinforce innovative behaviour

Airline Alliances in a Competitive, Global Market

In a recent survey by *Airline Business*, it has been revealed that there are more than 360 alliances among international carriers (Gallacher, 1997). Few of these display any strong commitment to organisational integration and it is more appropriate to regard them as competitive actions to pursue relatively short-term objectives. We consider them to be "hollow organisations rather than genuine attempts to develop new organisational relationships as part of a globalisation strategy. In the long-term, coalitions would continue to be formed, but specific memberships would vary depending upon the set of competitive conditions at any time. There can be no doubt that the existence of regulatory barriers to entering markets and to investment favour alliance formation. In the absence of the regulations, it is probable that genuine strategic alliances would continue to develop as an alternative to strategies based on mergers and acquisitions. We believe the key reason for this is that globalisation in the airline industry requires a network of services operating in regions with widely differing cultural conditions. Attempts to co-ordinate actions through merger and acquisitions will be confronted with problems of cultural fit and they will need to tailor services to local demands. Strategic alliances, though, are markedly different than simpler marketing and operational alliances. Alliances allow greater flexibility and added-value. More importantly, the model for success addresses the fundamental issues directly.

The benefits from these strategic alliances potentially accrue in improved performance and responses to consumer needs. The formation of strategic alliances allows carriers to question more actively, to overturn existing logics and to intervene more effectively in change. Strategic alliances force each enterprise address the nature of their contribution to hybrid organisation by identifying their core competency, expertise, resources and where they will add value. Strategic alliances present challenges to the airline industry that are not entirely novel, but they need to be reconsidered as a potential solution to

many of the difficult questions facing it such as out and in-sourcing, downsizing and business failure.

Implicit in the pursuit of competitive advantage is the assumption that there is scope for market power. Business strategies seek to establish and defend positions in the market. The fundamental question for regulators is whether competition in the airline industry is a sufficiently strong enough force to produce outcomes that are "better" than what can be achieved under regulated conditions. The issues of concentration of market power, whether it be through mergers and acquisitions or through alliances, still need to be confronted. However, the organisational structures that emerge in strategic alliances are more complex and it will become progressively more difficult for individual governments to influence their behaviour. Moreover, regulators need to consider how their actions affect the development of genuine strategic alliances that have the potential to deliver long-term benefits.

Concluding Comments

We believe it is inappropriate to label most of the arrangements among the world's airlines as "strategic alliances" formed as part of a "globalisation process". It is better to regard them as competitive responses to current conditions, that is 'hollow' networks based on a relationship of exchange and not integration. To a large extent, the alliances are a by-product of the regulatory system. The key questions from a regulatory perspective are whether increasing concentration of market power is likely to occur in liberal market conditions and how this would have an impact on performance.

The current set of regulations restrict access to markets and prevent airlines from investing in each other. We believe that the regulations also inhibit the development of genuine strategic alliances because they impose issues of national sovereignty on a process where genuine integration that is, co-operation and a commitment to decision and resource- sharing is required.

We have argued that alliances would survive in liberal market conditions but they will be a more complex organisational form with a stronger commitment to the exploitation of the benefits of globalisation than dominant firms that see global expansion as simple extensions of their networks.

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