

CHAPTER 1 INTRODUCTION

This thesis is an exploratory piece of work set in the UK and Irish airline industry. The primary reason for picking this particular industry is the author's personal background and experience¹. The main organisation that he worked for during this period enjoyed periods of success and others in which it struggled to survive. Finally the core business folded in 1996, some four years after he left. These experiences have been written up elsewhere (Beech and Finlay, 1999) as a case study of success but ultimate failure. This thesis explores how senior UK and Irish airline executives, those at board level, see 'success' and 'failure', and what they see as the causes of 'success'.

Characteristics of the Airline Industry

The industry may be characterised in a number of ways:

- maturing, but still relatively young;
- technologically determined, in terms of the equipment it uses, i.e. airliners, with very high financial entry barriers;
- volatile and liable to be influenced by externalities, such as those which impact the scale of travel and tourism, September 11th being a classic example;
- global in scope as an industry but becoming segmented into global, regional and local players;
- safety regulated and thus commercially constrained by that regulation;
- heavily legislated and regulated, with licensing systems for operators, routes, personnel (pilots, aeronautical engineers and cabin crew), and airports;
- documented by its operators throughout the world as a result of legislation;

¹ The author spent twenty-two years in the airline training sector, the last twenty of them at Air Service Training, Perth Aerodrome, Scotland. Air Service Training was one of two major UK providers of Commercial Pilot and Aeronautical Engineering training to the world's airlines.

- largely oligopolistic, with respect to major inter-continental routes, and definitely finite in terms of the number of players;
- historically dominated by protected state sector organisations but with a thriving fringe of private sector players;
- in a state of flux following deregulation in the United States and the European Union;
- culturally segmented within each organisation - for example, the traditional antipathy between pilots and engineers;
- serving a variety of customer types (passenger; cargo) through various formats of operations (scheduled; charter), classifications which can be developed into sub-varieties.

Perhaps most distinctive of all is the way that competition takes place between the players in the market. Airlines cannot choose the basis on which they compete - the routes - with free choice. A UK airline wishing to open a route between say Portsmouth and Stirling would be constrained from doing so by the fact that neither city has an airport. There is thus a strictly finite number of routes from which to choose. Until the recent process of deregulation, the Civil Aviation Authority (CAA), the government body which regulates air transport in the United Kingdom, only allowed two airlines to operate on each route. This resulted in either monopoly or duopoly competition on each route. Competition ranged from monopoly on routes that were seen as low revenue earners, for example in the Highlands and Islands, through cosy duopoly², to a non-operational competition - lobbying the CAA to gain the right to be one of the airlines allowed to operate on what were seen as the highly lucrative routes, such as between London and Edinburgh or Glasgow.

These factors in this particular combination result in an industry where the difference

² In the days before the European Union opened up the airline market to ensure a freer market, it was not unknown for two national flag carriers to share the route between the two capital cities and actually pool receipts, thus ensuring that any potential competition in a duopoly was effectively avoided.

between success and failure is not only critical but may result from a small but crucial change in circumstances. In particular, since competition is so focused, an airline is especially vulnerable to changes in competition determined by a competitor. The nature of airline operations does not lend itself to fast incremental response. Often the only negative option to respond to a competitor's aggressive increase in competition is complete withdrawal from a route. The industry as a whole faces the same problem of lack of effective incremental response in the light of serious external factors such as the immediate aftermath of the September 11th tragedy, or from a historical perspective the major increase in fuel prices in the mid-nineteen seventies. This frequent lack of the option of incremental response means that in the airline industry changes in strategic planning which cannot be in small increments may result in disproportionate changes in outcomes with respect to success or failure.

In the wake of the widespread deregulation introduced throughout Europe from 1992 onwards, two characteristics of the UK and Irish airline market place have emerged:

- a continuation of essentially non-competitive practices through the development of monopolistic regional carriers, such as Eastern Airways, as well as the survival of those airlines already operating this way, exemplified by Aer Arann's invitation on its website '*Let us fly you where no one else can*' (Aer Arann, 2002);
- the emergence of fiercely competitive low-cost no-frills carriers (Doganis, 2001), exemplified by Easyjet and Ryanair, operating from the UK and Ireland to popular continental destinations.

The process of deregulation had begun earlier in the United Kingdom, commencing with the privatisation of the national flag carrier, British Airways, in 1987. While this affected its role and ability to compete, it was not until the deregulation of European air transport was introduced that competition on international routes approached a free market.

Details of the significant European legislative changes are given in Table 1. The changes over a ten-year period from 1987 to 1997 saw the removal of almost all competition barriers for airlines of member states. These barriers provided different restraints on the way different airlines operated. For example, airlines wishing to operate internationally faced restraint which did not apply to domestic operations. From this it is clear that

research must focus on the current period, where all airlines faced the same lack of regulatory restraint on strategic options open to them; this began on 1 April 1997.

1979	EC Civil Aviation Memorandum No. 1 (general objectives regarding air transport policy)
1984	EC Civil Aviation Memorandum No. 2 (advocated harmonisation and liberalisation of intra-European bilaterals and introduction of competition rules with certain exemptions)
1987	Stage 1 of Air Transport liberalisation approved by Council of Ministers
1990	Stage 2 of Air Transport liberalisation approved by Council of Ministers
1992	Stage 3 of Air Transport liberalisation approved by Council of Ministers
April 1997	Open Skies in European Union except for two local restrictions - the Greek Aegean Islands and the Azores

Table 1 Timetable for changes in EU competitive environment, adapted from Williams (1994)

‘Success’ and ‘Failure’

As the market has reacted to deregulation, with concomitant changes in airlines’ strategies, the notions of ‘success’ and ‘failure’ need to be re-assessed. They are terms which are widely used by academics and practitioners, yet, as the Strategy Literature Review (p.14) reveals, they remain poorly defined. Since achieving success and avoiding failure lie at the core of strategic intent, it is surprising that success and failure are not well documented.

Notions of ‘success’ and ‘failure’ are held from two contrasting perspectives. Firstly, those directly involved in deciding an organisation’s strategy have local, and indeed personal, notions. These are subjective notions which lend themselves to phenomenological investigation. In contrast, there are objective performance-based notions of ‘success’ and ‘failure’ which lend themselves to positivist investigation. This thesis investigates the former through phenomenological methods, but also compares the results with objective notions based on financial and operational performance.

The need for definitions of 'success', and in particular an understanding of what constitutes perceived definitions of 'success', lies not merely in the fact that current definitions are few, but in the fact that such perceptions will influence the strategic decision-making of those executives in a position to shape an organisation's intended strategy.

It is worth noting what Palys has to say on the subject of qualitative researchers:

*"Qualitative researchers argue that people's perceptions should be the focus of analysis... We must understand those perceptions if we want to understand human behaviour: what people think about the world influences how they act in it."*³

(Palys, 1997)

Work in the area has mainly been by positivists. This thesis adopts a phenomenological approach in order to offer a different understanding of 'success' and 'failure'. Its focus is on practitioner notions of the two concepts, and is based on fieldwork (interviews and questionnaires) designed to gather a 'richer' picture of the notions of 'success' and 'failure' held by those in a position to influence an airline's strategy.

A Sense of Perspective

As will be seen from the Airline Industry Literature Review (pp.51 et seq.), there is a dichotomy between the popular positivist approach within the major academic thrusts of research into the industry and the more phenomenological accounts of practitioners. Academics have researched widely into airlines from an economic perspective, with little research using the airline executive rather than the airline as a unit of analysis. The limitations of this approach have been described by Reger:

"..the economic perspective is of limited usefulness for understanding how or why strategies are chosen because the 'objective reality' of the researcher may not be meaningful to strategists and may not guide their decision-making"

(Reger, 1990, p.71)

³ Unitalicised words in this quotation were italicised in the original.

With the emphasis placed on ‘success’ measured using objective financial and operational measures, the notions which practicing strategists hold of ‘success’ and ‘failure’ remain largely unexplored. The primary drivers of this thesis are to explore what these notions are, and to surface the factors that such strategists perceive as causing ‘success’.

In establishing individual practitioners’ definitions of ‘success’ and ‘failure’, it is important to recognise that such definitions will, from a linguistic perspective, be either prescriptive or descriptive definitions. This distinction is important as Pettigrew argues in Mintzberg and Waters, Pettigrew and Butler (1990, p.6) with respect to decision-making:

“... I will argue that words do matter. Beneath the words lie ontological and epistemological assumptions which open up and close down fields of inquiry.”

The prescriptive definition is the one familiar to students of the French language, definitions of which are prescribed by the Académie Française. Students of the English language will be familiar with the descriptive definitions of the Oxford English Dictionary, which merely reflect usage rather than attempt to control it.

The positivist approach underpinned prescriptive models of success or failure such as those of Kay (1993) or Altman (1968) respectively, which are referenced in external norms such as performance measurements. A phenomenological approach would, however, be better served by a descriptive (as opposed to prescriptive) approach, since it is concerned with the variety of descriptive definitions held by practitioners rather than the prescriptive definitions offered by academics, and is referenced in personal experience and belief.

Such an approach is also more appropriate for a second reason. Since this thesis is concerned with success or failure at an organisational level rather than at an industry level, it is concerned with issues which distinguish and differentiate between organisations. The focus of investigation is therefore on:

- internalities, the factors which influence ‘success’ and ‘failure’ within an organisation, which are largely within the control of the people who run the

organisation, and where the manager has a role as a regulator of organisational activity;

- externalities in so far as they produce differentiated responses internally, 'externalities' meaning the environmental factors which influence organisational 'success' and 'failure' from outside the organisation, and which are largely beyond the control of the people who run the organisation, but which require the manager to act as a pragmatist rather than as a regulator.

It is at the interface between organisation and environment that crucial distinctions between organisations occur.

At this level of distinction, another theme to this thesis is encountered - attribution, specifically the attribution of the causes of 'success'. This theme is specific to an investigation of perceived causation and a phenomenological approach, and is an area neglected by previous positivist researchers.

As Reichheld (1996) points out in his work on decision-making, there are problems in researching causation, in that interviewees need to be drawn through layers of explanation. He advocates as a rule of thumb the 'five why's' rule in seeking root causes. The implications of using this model are discussed below (pp.31 et seq.). By probing in interviews with senior airline executives, what might thus be called the 'hierarchy of causation', the internalities and, where appropriate, externalities which have shaped each organisation may be drawn out.

The rich-text picture of a phenomenological approach is intended to produce and explain these distinctions whereas a positivist approach might be more appropriate to a homogenised scenario and hence industry-level issues.

The ambiguity and lack of clarity regarding the meanings of 'success' and 'failure' are problematic - is failure just the opposite of success, for example? The idea that the causes and the drivers of success and failure might be related not simply as opposites but more in the way that Herzberg's Hygiene Factors and Motivators (Herzberg, Mausner and Synderman, 1959; Herzberg 1987) were related - their absence OR presence working in different ways with respect to success and failure - emerged early

in the exploratory research. Perhaps failure is simply a lack of success, and perhaps is attributable to different causes. The differing approaches to success and failure in the literature also lend support to the view that they are not as simply related as opposites.

Certainly a prima facie case can easily be made. Argenti (1976), for example, mentions overtrading as a frequent characteristic of failing firms. Clearly it cannot be argued that the opposite is true - that undertrading is a frequent characteristic of firms that are succeeding. Failure is, in any case, fundamentally different from success in that it is terminal, permanent and unrecoverable, unlike success which may or may not be transient.

The nature of the airline industry also causes problems with a definition of success. For example, is an airline which had been taken over 'by definition' a success, on the grounds that it had proved attractive enough to be the subject of a take-over, or was it a failure as it had not survived? From another perspective, was Dan Air a success in that it survived much longer than most of its early competitors before eventually failing or was it simply a failure because it ultimately failed?

Research Aims

The aims of the research are essentially exploratory. The Central Research Question is:

What do UK and Irish airline executives perceive as 'success' and 'failure', and to what do they attribute 'success'?

This Central Research Question is elaborated into more specific Aims and Objectives below (p.70).

The theoretical context - strategy, attribution and the airline industry - is discussed in the following section and in Chapter 2, the Literature Review.

Research Gap and Contribution

The first product of the research is therefore the identification of the elements of success and failure in the airline industry. In short, the challenge is to achieve an understanding of what is considered as 'success' and as 'failure' by airline executives.

Three academic areas emerge as contexts for this research, each with its own literature and frameworks, and are listed in Table 2:

GENERAL	SPECIFIC
Strategy	Success and Failure; Development of Organisations
Organisational Behaviour	Causal Attribution
Industry Context	Airline

Table 2 Outline of relevant fields

Strategy and Organisational Behaviour functions overlap to some extent in Organisational Theory, while Strategy and the specific Industry Context also overlap. Details are given below in the three elements of the literature review and a simplistic overview is given in Figure 1.

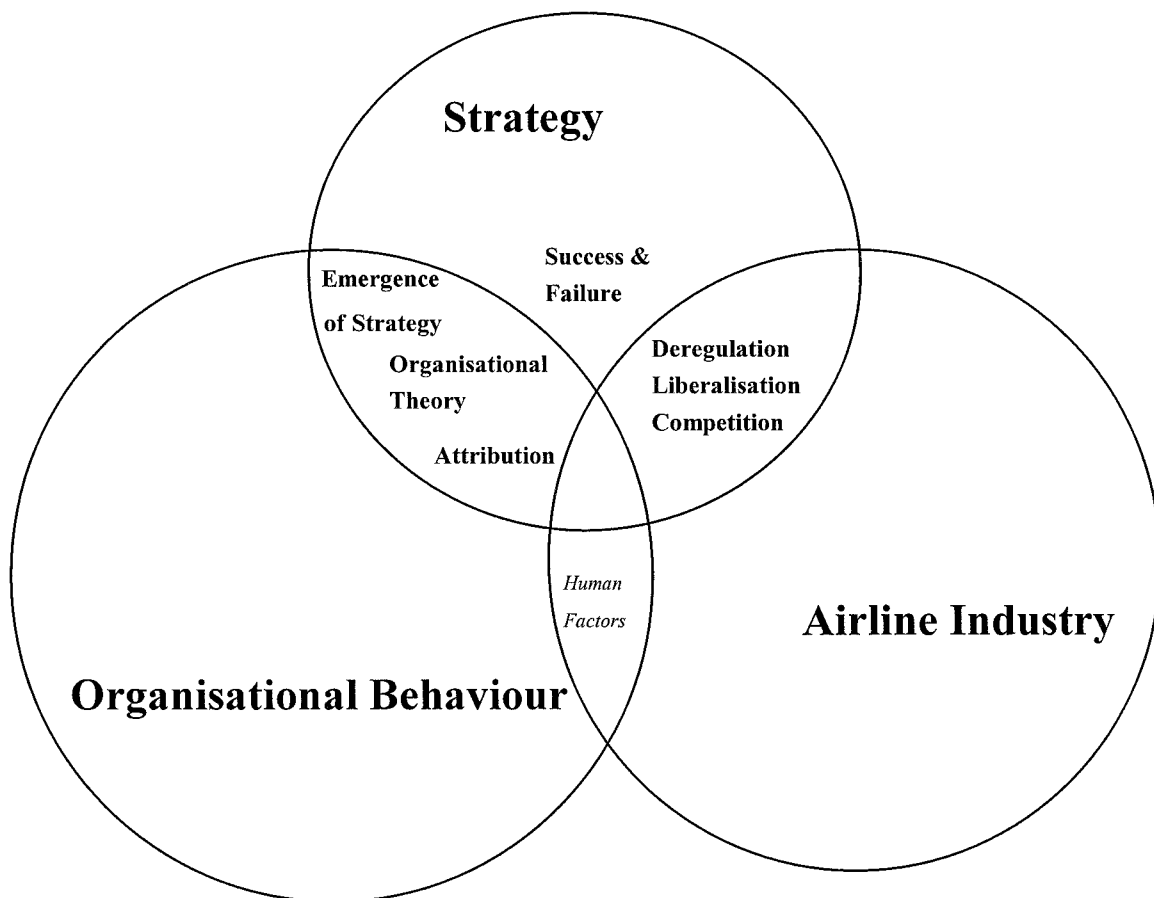


Figure 1 Map of academic areas

Organisational Behaviour and the Airline Industry overlap to some extent in the area of human factors - cockpit systems and flight deck management - but this highly specific overlap is of no relevance to this research.

The intention of the research is to provide a contribution at the overlap of the three areas:

- Strategy: to contribute to the knowledge of what practicing airline strategists perceive as 'success' and 'failure';
- Organisational Behaviour: to contribute to the knowledge of causal attribution;
- Airline Industry: to contribute to the knowledge by exploring at the individual level from a phenomenological perspective rather than from the conventional economic perspective of the organisational and industry levels.

Strategy has been linked with each of the other areas previously, but this thesis explores the three-way overlap by looking at 'success', 'failure' and the perceived causes of 'success' in the airline industry.

Possible Methods and Their Limitations

In attempting to identify senior airline executives' notions of 'success' and 'failure', it is immediately recognised that there is a danger of attributional error, with, for example, executives using different standards when evaluating their current airline from those they use when evaluating their competitors (see page 45). A number of different approaches might be used to surface notions in different ways:

- explicit requests (in interviews);
- requests for evaluations of current airlines in terms of both success and effectiveness (in interviews);
- requests for evaluations of specific airlines, with reasons for selection (in interviews), for both current and defunct (i.e. failed) airlines;
- requests for nominations of airlines as 'successes', with reasons for selection (in interviews and questionnaires);
- requests for nominations of airlines as 'failures' or 'potential failures' with reasons for selection (in interviews and questionnaires).

In fact, all of these have been used, and the reasons for using them are discussed in Chapter 3 Methodology and discussed further in the light of difficulties in implementing the methodology (p.151). The choice of interviews is significant, authors such as Remenyi et al. (1998) and Kvale (1996) noting their use in 'non-positivist' and 'phenomenological' approaches respectively.

Outline of Subsequent Chapters

Chapter 2 consists of literature reviews of the three specific areas identified as the theoretical contexts of the thesis - strategy, with regard to both generalist views of the strategy process and the specific areas of 'success' and 'failure'; attribution theory and the specific area of the attribution of the causes of 'success'; and the airline industry. It identifies current gaps in knowledge.

In Chapter 3 the Research Methodology is established. The Central Research Question is elaborated into specific Aims and Objectives and the theoretical perspective discussed. Following consideration of issues which influence the research design, the chosen research methods and issues related to the samples are discussed. Finally some outcomes of the two pilot interviews are presented and the implications for the design of the main research reviewed.

As the research took place, a number of problems were encountered, and how these were resolved is discussed in Chapter 4.

Objective measures of success, both financial and operational, calculated from standardised CAA data (Civil Aviation Authority Economic Research Group, 2002) are analysed in Chapter 5. The findings of field research - interviews, causal maps and postal questionnaires - are presented in Chapter 6.

In Chapter 7 conclusions are drawn with respect to the research objectives set out in Chapter 3 (p.75) and existing theory. Recommendations are made for further research and for practitioners.

“Reading is to the mind what exercise is to the body.”

Sir Richard Steele (1672-1729) in *The Tatler*, no. 49