

Initiative at the corporate periphery.

A study of a low-cost airline in Central and Eastern Europe

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Abstract

This paper reports a qualitative multiple case study of entrepreneurship and initiative at a periphery of a multinational corporation. It is novel in its focus on a link between individual and corporate entrepreneurship, and the research context of a service company from Central Eastern Europe. The primary data on five cases of subsidiary initiatives come from thirteen semi-structured interviews with the headquarters personnel, including company CEO, and chairman of the supervisory board, and staff located in subsidiaries, including subsidiary managers and heads of functional departments. Results contribute to literature on corporate entrepreneurship and subsidiary initiative by showing importance of an interplay between organizational and individual factors affecting initiative, by extending our understanding of the mechanisms of “corporate immune system”, and indicate need for employing specific methods, as well as diversifying units of analysis in studies of the initiative within multinational corporations.

Keywords: corporate entrepreneurship, subsidiary initiative, subsidiary-headquarters relations, multinational corporation, Central and eastern Europe, airline industry, services.

Introduction

Building on literature on entrepreneurship within multinational corporation (MNC) and subsidiary initiative, this study aims to extend our understanding of conditions and circumstances under which subsidiaries of a multinational corporation demonstrate initiatives, and how these initiatives are received. Following related current research, the multinational corporation is conceptualized as a differentiated network (Bartlett & Ghoshal, 1990; Nohria & Ghoshal, 1994, 1997, Forsgren et al., 2005). This conceptualization allows deeper understanding of the investigated phenomena.

Previous studies focused on MNC subsidiaries addressed the issues of subsidiary entrepreneurship and initiative, and showed their importance to subsidiary performance (Birkinshaw & Young, 2005; Zahra et al., 2001). But what is missing is the link between individual and organizational level of analysis, namely characteristics of subsidiary employees and initiatives taken by the subsidiary. Regarding the research context, studies of subsidiary initiative covered manufacturing and R&D subsidiaries, although some scholars (e.g. Birkinshaw, Hood & Young, 2005) mentioned that corporate entrepreneurship can be found in other types of subsidiaries, and call for extending research to cover other types of subsidiaries in different industries. This study is attempting to address these gaps. A primary management contribution is to help managers, both at the headquarters and subsidiary level, understand what configurations of human resources versus other factors promote subsidiary entrepreneurship in foreign subsidiaries, and allow aligning them with the overall company policy of either enhancing or hindering initiative at the company periphery.

The paper is organized as follows: First we position the paper discussing theoretical background within a broader tradition of research on entrepreneurship and initiative within multinational corporations, and indicate area for advancing research which is addressed in our study (research gap). In the following section we discuss research approach, utilized methods, studied corporation and interviewees. Afterwards, we present our findings and discuss contributions to theory and practice. The paper closes with a discussion of limitations to this study, and present specific directions for future research in this area.

Theoretical background

In this section we briefly critically review literature on entrepreneurship and subsidiary initiative, and identify area for advancing research

This study is rooted in the seminal work of Ghoshal and Bartlett (1986) and Nohria & Ghoshal (1997) who observed that MNC subsidiaries, using their local resources, must create innovations to products, processes, and practices, which can be used locally and transferred to other national markets where the MNC operates. Following researchers focused on innovations regarding products, and an area which remains understudied is practices and processes used by multinational corporations.

It is today commonly accepted that an important competitive advantage of MNCs is their superior ability to transfer and combine capabilities across geographically dispersed units (e.g. Barringer et al, 1999; Cerrato, 2006, Doz et al., 2001). It is widely recognized in the

international business and strategy literature that innovativeness of foreign subsidiaries, and entrepreneurship as the starting point of initiatives and innovations (e.g. Bartlett and Ghoshal, 1986; Doz, et al., 2001) play a key role in determining the success of the multinational corporations. As noted by Cerrato (2006) *“the MNE’s competitive advantage relies on its capability to accumulate, exploit, recombine, and innovate its set of firm specific resources as well as transfer such resources to the different nodes of its extended network”*.

The role of subsidiaries within MNC networks has recently come through changes which increased pressures to become more entrepreneurial. Also, being the source of initiatives that are subsequently implemented in the multinational corporation may enhance subsidiary’s status and allow claim on resources (Ferner and Varul, 2000). However, little empirical research has examined the factors that determine generation of subsidiaries’ initiatives, and we still need more understanding of the reasons for which subsidiaries demonstrate initiative. Thus, the main research question guiding this study is: what makes subsidiaries generate initiatives. To address this question we analyzed five cases of initiatives, four unsuccessful, and one which was implemented, showing the drivers of initiative on individual level, thus providing a link between studies of entrepreneurship and initiative on the organizational (subsidiary) and individual level .

Although the role of individual entrepreneurs, who through their entrepreneurial acts educate other actors about opportunities which they would normally not discover (Kirzner, 1973, p. 14-15) has been recognized long ago, most of the studies on entrepreneurship and innovation in the strategy and international business literature focused on analyses conducted on subsidiary

or company level. This study aims to explore the room for managers and other individuals working at the periphery, i.e. at foreign subsidiaries of a multinational corporation, in advancing initiatives which have an impact on the company performance.

Research objectives

Specifically, in the light of the above, with this study we are making an attempt to bring following contributions:

a) To the scholar literature:

The literature on entrepreneurship within multinational corporations (MNCs) describes and analyses entrepreneurship either on individual or subsidiary level (Birkinshaw, 2005). This study attempts to build a link between the two by investigating the role of characteristics of individual employees on subsidiary initiatives. Scholars studying innovation, entrepreneurship and initiative within multinational corporations might be potentially interested in insights achieved due to “rehumanising” objects of their study, researching the role of individuals and their characteristics in combination with other, more macro-level factors contributing to innovativeness and ultimately performance of corporations. This study is also novel because of its research setting - a case study of a service company - as prior research focused on manufacturing and R&D subsidiaries, or analyzed “aggregated” national subsidiary with all the sub-functions constituting a subsidiary as a unit of analysis

b) To the practice:

Practitioners at both subsidiary and headquarters level could be potentially interested in learning what difficulties a person presenting an initiative might encounter, and more specifically what characteristics of initiatives or actors presenting initiatives can make them successful. It might be thus used to fill in the “knowing-doing gap” (compare: Pferrer & Sutton, 2000) with its emphasis put on implementation of initiatives. It can also help managers, both at the headquarters and subsidiary level, understand what configurations of human resources versus other factors promote subsidiary entrepreneurship in foreign subsidiaries, and allow aligning them with the overall company policy of either enhancing or hindering initiative at the company periphery.

Methods

Justification of the use of qualitative research methods

Following recommendations from established literature on research methods, to address the research questions posted above and because of the novelty of the taken approach we decided to use qualitative research methods, involving an interpretive, naturalistic approach to the subject matter, and study people and phenomena in their natural settings, attempting to make sense of, or interpret phenomena in terms of the meanings studied people bring to them (Denzin and Lincoln, 1994).

The use of qualitative methods allowed for observing phenomena which most probably could not be spotted through traditional survey questions. For example, during interviews we were told about a number of subsidiary initiatives the managers and employees at the

subsidiary came up with and presented to the headquarters. In a case of two departments all the initiatives were either immediately rejected or ignored, i.e. were assessed by the headquarters managers as not fitting the company's business during first presentation, or remained without any answer. Consequently people who came up with those initiatives reported to feel decrease in motivation, and stopped to generate any initiatives. Appropriate evidence from interviews is presented in the discussion section of this paper.

Just asking typical survey questionnaire questions about initiatives, for example: "do you present ideas for development or creation of new services" or even "how many changes to the way business is being conducted did you suggest this year" would not allow capturing the entrepreneurial potential of the studied subsidiary, and consequently might lead to false conclusions about subsidiary's initiatives and entrepreneurial behavior of its staff. This study, due to its more open, qualitative format, did allow detecting, among others, presence of subsidiary initiatives, and tracing its development, which in our view justifies the use of this research approach.

Specifically, following Hair et al. (2007), Yin (2003, & Miles and Huberman (1994), we decided to conduct an in depth case study of a multinational corporation, using semi-structured interviews, as more useful for discovering, and providing in-depth information on a few characteristics, an focus on naturally occurring, ordinary events in natural settings.

The case study approach was utilized since this is appropriate for the exploration of complex phenomena that are to be understood in organizationally specific contexts (Eisenhardt, 1989; Yin, 2003). The cases which come from within one organization, but various

subsidiaries, offered the opportunity to explore the studied phenomena deeper, and through in-depth, qualitative exploration of relevant processes enabled theory extension and building (compare: Glaser and Strauss, 1969). This paper does not aim at presenting generalizable results (for a recent discussion on generalizability limitations of case study approach please see Gibbert et al. 2008), but rather at increasing our understanding of entrepreneurial processes within multinational corporations, and exploring the relevance of theory concerning subsidiary initiatives within specific settings.

Data Collection

The organization under study is a European multinational corporation in the low-cost airline industry. In line with the tradition of naturalistic inquiry, the selection of participants was primarily based on the basis of their particular knowledge about the phenomena under study, with the aim of maximizing the information that could be obtained.

This is a convenience sample, as the selection of the company was opportunistic to the extent that to be able to get access to employees at different organizational levels (including the company CEO and subsidiary managers), and at various geographic locations we started from our personal contacts, and used a “snowball technique” to gain access to other individuals who might potentially possess knowledge valuable to our research project. The use of multiple respondents was particularly important to avoid common method bias in the study of initiative, as the views of the headquarters and subsidiary representatives differed significantly regarding

implementation of initiatives. We also used additional information gathered from company documents, Intranet and Internet sources, and observation.

Respondents represented a wide range of company employees, ranging from the top management to operational employees, both at the subsidiaries and the headquarters. The interviewee list (appendix III) includes the company CEO, chairman of the supervisory board, subsidiary presidents, and other individuals (e.g. pilots who were directly involved in certain initiatives) who possessed knowledge necessary to discuss issues and phenomena under study.

Interviewees were initially contacted via e-mails, and after establishment of contact via telephone (directly or through personal assistants, depending on their respective positions) to discuss the focus and form of the study, as well as technicalities associated with the interviews. Before and at the beginning of the interviews they were informed about the general theme of the study. In the process of data collection some other individuals were contacted but then eventually not interviewed, as they claimed to lack sufficient knowledge to answer presented questions.

The interviews were conducted either in English or a mother tongue of the respondent (for some respondents English language was the mother tongue). The interviews which were conducted in language other than English were translated by two bilingual experts who consulted their work. All interviews were recorded and transcribed. Appendix II presents an overview of conducted interviews. Both the company and subsidiaries are not identified by name, and all interviewees identified only by their job title and area of responsibility.

Findings

In this section we draw together the results from interviews with different company representatives and corporate documents, and compare the findings of this study with prior research. Results allow development of further research questions and propositions to be tested in future studies. In the discussion beneath we also provide implications for practice. Broadly speaking, it is not surprising that some of the findings confirmed the knowledge from previous research, but this study provided also some new insights.

The most evident confirmation to the findings of earlier studies was the presence of the so called “corporate immune system” (e.g. Birkinshaw, 2000) which blocked or provided no room for initiative. As one of the subsidiary managers put it simply: “In the past, we had ideas and suggestions how to make things better [...]. But they did not meet the “requirements” and moreover, they were taken as offence or sort of dishonor from the previous management. [...] They really took it rather offensive than as an advice or help from our side. So that’s why we actually eliminated our “actions” and initiative and we do only what we are told to do [...] So we just became sort of bystanders and observers.”(Subsidiary manager) That opinion was confirmed by both the employees from other subsidiaries and headquarters managers: „Everything is managed centrally. To be honest, there is nobody competent in the bases to do and suggest such things. They cannot afford; they don’t even have the resources, or people, or endeavor, or reason to do any big decisions by themselves. Why should they actually do that?” (HQ manager)

But although scholars have long acknowledged a presence of "corporate immune systems" (Birkinshaw & Riddlerstrale, 1999) which blocks subsidiary initiative, our observation is still contrary to general indication of current international business literature (e.g. Bartlett, Ghoshal and Beamish, 2008) which indicates that nowadays foreign subsidiaries of multinational corporations, which started as only „agents" (compare: O'Donnell, 2000), fluently gain importance and additional responsibilities when developing resources and capabilities of their own, tapping into new business areas and opportunities in the local market. This point needs further rigorous empirical analysis. Our study, employing individual perspective on entrepreneurship and initiative in a multinational corporation, shows that individuals can stop to act entrepreneurially if they encounter negative reactions or no reaction at all from individuals at other levels of corporate hierarchy.

One of the new insights concerns types of initiatives undertaken by employees at the subsidiary level. Both headquarters and subsidiary representatives confirmed successful implementation of one initiative which allowed saving aircraft fuel, and consequently financial resources of the whole corporation. This initiative was implemented in all subsidiaries. It might lead to building propositions about measurability of the money value of initiative and time and other resources needed for implementations as key factors affecting successful implementation of initiatives taken by employees at the corporate periphery, or any other initiatives within a corporation.

An alternative explanation is that, since the study was conducted at the time when company suffered from financial difficulties, caused partly by high fuel prices, it is the current

concern of the top management which affects decisions about implementation of initiatives, and so these are the initiatives attempting to solve current problems which are implemented.

Yet alternative explanations also take as a basis of analysis the outcome of the initiative, but focuses on the actors potentially directly profiting from implementation. The first one is that successful implementation of a change to a practice increases value of the person who suggested a change. Since that person is only one organizational level below people who decide on the fate of the initiative, they are not willing to grant such a person “a pass to promotion”. This is enforced by the current difficult situation of the company when employees are not sure about their own future, expecting staff reductions and other rationalization efforts. Viewed from a related but different perspective, in the example provided above, it was the management which could report lower cost, and pilots were too distant in the firm hierarchy to endanger deciders’ position. In the example given below, it will be line employees who could make their work less stressful and possibly provide better service to the customer.

One of the employees reported: “The flights became a torture for the crews, there was a report about the ineffectivity to the base manager almost after every flight saying this is not effective, in fact it is harming our product, the passenger service was suffering because we had to focus on the ineffective procedures and not on them. We ended in situations with angry passengers because it wasn’t possible to cater them all under this system, passengers were sometimes even aggressive. [...] So obviously, the system wasn’t working regularly on each flight. The base manager was trying to present it to the HQ. [...] But [...] we were told “this is the new procedure and it’s your job, so stick to it and organize”. They didn’t want to

understand that we don't complain because we were lazy, but because we saw that the system of catering is not satisfying the passengers and harming the company. So even if we tried, they just weren't listening or taking it seriously because of the ``dependent`` status of the base; they thought they knew better.'"

It is worth noting that in both cases the initiative came from the front line employees, and in both cases the customer was affected, either by the level of service or price, directly in the former case, and indirectly in the latter. However, from the company side, the first initiative could affect directly management, and line employees in the second one. It might lead to a proposition that initiatives affecting directly performance of people whose performance is directly affected by the implementation of a given initiative have higher chances of implementation. Combining analysis of alternative explanations of the two discussed initiatives, this point needs further empirical investigation.

On the organizational level, these were the most experienced subsidiaries which demonstrated the highest levels of entrepreneurship, and at the individual level, the initiatives originated from employees with the biggest practical business experience, earned at companies from the same or related industry. It is perhaps worth noting that the level, type, and scientific focus of education did not have any noticeable impact on the entrepreneurial behavior. Thus, we propose that the experience is associated with entrepreneurship at both individual and organizational (subsidiary) level.

We are not able to predict a type of correlation i.e. if there exists, for instance, a linear or a curvilinear relationship between experience and entrepreneurship, or if any "critical mass",

or a threshold of the level of experience allows or results in an individual or subsidiary entrepreneurship. It stays however unclear whether it was a random case, driven by a combination of various factors, or is it typical to some cultures that those in trouble receive help even in business-to-business situations. This issue needs to be further researched because of its potentially high implication for practice. If such “friends” from companies providing complementary services offer help when they see others in trouble, companies experiencing difficulties should communicate their problems openly and ask for help. In the light of current developments in the global economy such knowledge could provide business leaders with indication where could they ask for support, going beyond help from government administered funds.

Another important point concerns negative side of initiatives, specifically if there are any negative consequences of presenting initiatives to the headquarters. The negative consequences of initiatives reported by our respondents were general dissatisfaction and diminishing entrepreneurship in subsidiaries, and what one the interviewees described as “feeling offended” on the headquarters’ side. This means that generating initiatives could lead to building of “immune system” at both the subsidiary and the headquarters, and hindering any acts of corporate entrepreneurship.

While previous research covered consequences of subsidiary initiative focusing on more positive consequences (Birkinshaw, 1999, 2000; Rugman & Verbeke, 2001) the negative consequences of initiative need further research, as having potentially impact on the entrepreneurship, and ultimately performance of subsidiaries over a longer period of time. To

the managers responsible for organization of multinational subsidiaries, the most important finding might be that subsidiary initiative is driven primarily by the experience of the subsidiary staff, which allow identification of areas for ameliorating ways in which business is being conducted.

Comparisons of initiatives between subsidiaries, and between initiatives originating at the same subsidiary allowed for a deeper understanding of this phenomenon, which would be obviously impossible at only organizational level. Thus, we suggest that further research should examine in more depth the interplay between initiative generation at both organizational and individual levels, taking into account and comparing characteristics of both firm units, and its employees. The same suggestion concerns the corporate immune system which should not be considered solely on the organizational level, but also on personal, while there is definitely room for personal antipathy and sentiments. Thus we suggest future research on subsidiary initiative and corporate entrepreneurship explores these phenomena at both levels of analysis simultaneously.

In summary, results enabled identification and generation of novel insights on characteristics of both the initiatives and people who generated them, and a combination of those characteristics versus other factors potentially explaining subsidiary initiative.

Limitations

This study suffers from some limitations. First of all, as true for any qualitative study, emphasis is put on the trustworthiness of respondents, and results are relatively subjective (e.g. Tharenou et al., 2007). While a single firm study is certainly limiting generalizability of the results, the fact that individuals from different countries, and in positions ranging from the top

management to the line employees were interviewed for the purpose of this research, makes this study particularly appealing.

Further, as it is a case study of one organization, results did not allow any statistical generalizations, but still allows for some type of analytical generalization (Yin, 2003, Gibbert et al., 2008). However, because of utilization of exploratory research design, we were able to develop and indicate new propositions for future research, which can be advanced and tested with more systematic and rigorous mix of qualitative and quantitative research methods.

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Appendix I. List of industry specific terms

(special thanks to Ms S.Z. from the analyzed company, for providing these definitions)

Cabin crew (abbr. CC) refers to the airline employees (cabin attendants) operating on board of every flight, ensuring that safety standards are met and providing passengers with on-board customer service.

Crew control refers to a department which is in charge of controlling and organizing operational issues, e.g. assigned crew on flight, the availability of the crew; furthermore, it act as the first contact point in case of any unusual occurrence during flight operations regarding any flight.

Crew resource management (abbr. CRM) is the effective utilization of all available resources (crew members, airplane systems and support facilities) to achieve a safe, efficient and comfortable operation. The objective is to enhance the communication and the management skills of all crew members and to motivate crews to change behavior towards good resource management practices during everyday operations.

Flight crew refers to the operating crew in cockpit whose duties can be simplified to flying the aircraft.

Ground handling defines the servicing of an aircraft while it is on the ground and usually parked at a terminal gate of an airport. Many airlines subcontract ground handling to an airport or a handling agent, or even to another airline. Ground handling addresses the many service requirements of a passenger aircraft between the time it arrives at a terminal gate and the time it departs on its next flight. Speed, efficiency, and accuracy are important in ground handling services in order to minimize the turnaround time (the time during which the aircraft must remain parked at the gate) which leads to an increased on-time performance.

Standard operating procedures (abbr. SOP) encompass procedures and instructions for each airplane type, containing crew member`s duties for all types of operation on the ground and in the flight in order to conduct safe operation of the airplane.

Appendix II. Interviews overview

Interview	Type of the interview	Interview language	Location	Length of the interview
1	personal	English	HQ	35 mins
2	personal	English	HQ	55 mins
3	personal	Slovak	HQ	50 mins
4	personal	English	Subsidiary office	40 mins
5	personal	English	Private meeting	45 mins
6	phone	Slovak	-	35 mins
7	phone	Slovak	-	30 mins
8	personal	English	Subsidiary office	50 mins
9	personal	English	HQ	40 mins
10	personal	English	Private meeting	35 mins
11	phone	English	-	55 mins
12	Personal follow-up interview	English	Subsidiary office, with a follow-up on a phone	Notes taken and parts regarding specific initiative were recorded & transcribed
13	Phone follow-up interview	Slovak	-	Notes taken and parts regarding specific initiatives were recorded & transcribed

Appendix III. Informants overview

<i>Position</i>	<i>Period of employment for the company</i>	<i>Nationality</i>	<i>Previous professional experience</i>
CEO	3,5 y	Canadian/ Irish	CEO in the airline industry
Chairman of the Supervisory Board	2,5 y	Greek	CEO and chairman in the airline industry, investment banker
Base manager	6 y	Slovak	Various cabin crew positions for the national airline
Base manager	5 y	Hungarian	Check-in agent at the airport
Senior cabin supervisor	2 y	Hungarian	Health sector; tourism sector
Base manager	2,5 y	Slovak	Board member in the airline industry
Office manager	3 y	Czech	Office manager
Office manager	5,5 y	Hungarian	Lawyer
Base manager	5 y	Hungarian	Check-in agent at the airport
Senior cabin supervisor	4 y	Polish	Language teacher, translator
Senior cabin supervisor	2 y	Polish	Marketing, HR
Captain (pilot)	N/A, above 2 y	Czech	Pilot with various airlines: national and charter