Introduction

Globalisation, growing urbanisation and industry trends are reshaping the economic world of the twenty-first century. As a result, most airlines worldwide are realising that it is essential to form international airline alliances in order to remain competitive in the global marketplace. All this requires a thorough knowledge of managerial skills, international markets and public policies of governments and supranational agencies.

In this context, airline alliances are carefully planning their strategic objectives in order to maintain market shares in the dynamic business world of the civil aerospace industry. Therefore, the selection of the right members is vital for a long-term success.

On the one hand, the theoretical aim of this research is to bring together and critically review the published literature that is of direct use to researchers working in the field of international strategic alliances and airline marketing. The sources are mostly from work published in the past twenty years, while the objective is to focus on global airline alliances.

On the other hand, the practical aim of this project is to combine secondary data and primary data in order to develop a model to assess the suitability of an airline to join an international alliance. This case study research particularly analyses the SkyTeam airline alliance and China Southern Airlines to determine their managerial fit in terms of its four components: strategic fit, cultural fit, capabalities fit and organisational fit.

Questionnaires and interviews were used in the research to acquire important data for the case study. The empirical part of the research permitted to have a clearer view of the managerial fit which is required to run successfully international airline alliances.

The findings of this research suggest that airlines working together in global alliances are required to have a sound strategic fit, which represents the first factor for success. A good cultural fit tends to consolidate the partnership if reciprocal learning occurs. Capabilities fit takes place especially when partners have complementary resources, but organisational structures are also required to be compatible to prevent conflict of interests.

New trends in international business

In recent years, a soaring number of firms are moving beyond national business activities. This transition process, which is generically termed *globalisation*, is just one part of a cycle that occurs periodically in the business world. This profound transformation, which is often linked to the Information Age, is under way not only in societies around the world, but also in organisations of all kind. Hence, firms are realising that they have to go global in their structures and operations in order to achieve some sustainable competitive advantage.

Globalisation is given several meanings in different contexts. Friedman (2000) states that '*globalisation is the process of universalising politics and markets while making borders porous; it relies on the greater interdependence of economies, political systems, culture and societies'*, while Floyd (2001) writes that '*globalisation occurs because of the interaction of modern technology and consumerism'*. Hill (2005) refers to it as '*the shift towards a more integrated and interdependent world economy'*. Therefore, globalisation appears to have different facets in terms of culture, markets, production, economics and politics. In brief, globalisation appears to be the worldwide homogenisation of demand patterns, which is given by increased access to products and services as a consequence of rapid knowledge flows and improved transportation. However, this trend also re-evaluates the salient differences between cultures, for which globalising and localising initiatives have introduced a more dynamic economic environment across all sectors. This is actively promoting competitiveness.

In this context, 'c*ompanies must learn to operate as if the world was one large market'* to avoid becoming the victims of those implementing it (Levitt, 1983). In particular, Johansson (2000) writes that four variables propel companies towards globalisation. These are: market, competition, cost and government. By exploring their definitions, market is intended as the global customers and distribution channels; competition consists of the interdependence between countries and competitors; cost is primarily determined by economies of scale and scope; government indicates public policies, compatible technical standards and regulations.

The main benefits of globalisation are: better customer services, cost saving and the restructure of logistical, purchasing and manufacturing operations (Segal-Horn, 1996), while market characteristics, industrial conditions, marketing institutions and legal restrictions tend to restrict its scale (Jeannet & Hennessey, 1992). In particular, the lack of adaptation to the

local marketing environment and increased currency risks are major drawbacks of going global (Yip, 1989). Hence, a global strategy, which includes the search for new market segments and partners, encourages initiatives for developing innovative procurement opportunities and advanced marketing research across boundaries (Lamont, 1996).

International trade and foreign direct investment drive the internationalisation processes, which is monitored by governments in their attempt to regulate the various activities of global enterprises. The presence of international firms is generally having positive effects on the economies of host countries because these investments achieved cost advantages for domestic firms and drive technological transfers which increase the productivity of certain regions, which tend to become important clusters. The trade flows which depart from these wealthy centres create further commercial routes. As a result, international manufacturing and service enterprises form partnerships to leverage their resources and increase their competitiveness by means of adopting one global strategy which also takes into account the local variants.

Allio (1989) argues that a global strategy becomes critical when the need for local adaptation is low and the benefits for local systems are high as a result of economies of scale and scope. Hence, reduced costs may be obtained by exploiting the flexibility of a global network and particularly enhanced customer services can be achieved by means of increasing global availability and recognition. In other words, the combination of more resources and more locations for international operations can yield some competitive advantage.

In general terms, localisation appears to be at odds with globalisation, but Glimstedt & Mariussen (1998) write that globalisation is not necessarily a process towards greater convergence across nations. In fact, the dynamic influence of the numerous political norms is critical since multinational firms are often in conflict with the views of national governments which tend to limit their activities within their frontiers. Thus, success in business is achieved by those enterprises which find the right balance between a global and local strategy by taking into account the needs of local agencies alike. This is the principal reason why international firms hire employees who can bridge the gap between different cultures.

According to Kessapidou & Versakelis (2002), culture in international business is the acquired knowledge people use to interpret experiences and guide their behaviour. Since culture-related blunders occur very easily in international settings, researchers have always

been exploring the endless complexity of cultural diversity. Also modern companies are gradually realising that English is slowly loosing dominance in the global marketplace, despite the fact that this is still the most used language in the world. In certain regions, Spanish and Mandarin Chinese are often used to conclude business deals. As a consequence, the international business idiom consists of words (e.g., *guanxi*) which derive from different languages. As a result, an increasing number of firms provide language and cultural support for those employees who are likely to be exposed to foreign cultures. In fact, sensitivity to cultural variations can help to meet the challenges of modern businesses.

All in all, globalisation requires more adaptation to different cultures. Shane (1994) writes that cultural differences affect the perceived lack of integration of foreign personnel in national organisations. That is why, according to Tomlinson (1999), international firms continually implement their cultural renewal programmes, while Champy (1997) points out that '*companies must value cultural and ethnic diversity, since it is a pragmatic necessity for a company that wants to sell globally'*.

The phenomenon of strategic alliances

To start with, companies deciding to go international must choose an entry strategy. This decision derives from analyzing market potential, company capabilities and the degree of marketing involvement. A company's approach to foreign marketing can require various investments of capital and management effort to capture and maintain a permanent and specific share of world markets. In particular, strategic alliances offer a foreign market entry strategy which does not require joint assets. Therefore, these partnerships enable to pursue a common marketing strategy which integrates the original strategies of each firm by using a reduced share of their intangible assets (Ghauri & Cateora, 2014).

After all, '*globalisation mandates alliances and makes them absolutely essential to strategy'* since they leverage the strengths of their constituent organisations (Ohmae, 1989). This is made possible by their long-term commitment to contribute and adapt all their assets and competencies in order to maintain a strategic value despite any environmental change, which may redefine their internal power balance (Aaker, 2013).

World-class companies are now accelerating their efforts to align processes and information flows throughout their entire value-added network to meet the rising expectations of a demanding marketplace (Quinn, 1993). In fact, the co-ordination of complex global networks of company activities is becoming a primary source of competitive advantage (Porter, 1985). After all, competition is a battle of competencies (Werther, 1998) since firms having strong and multiple competencies have a better competitive advantage (Prahalad & Hamel, 1990). In addition, as Ohmae (1989), Cartwright & Cooper (1992) and Yoshino & Rangan (1995) have pointed out, alliances foster these important competencies by giving firms competitive tools of a strategic and tactical importance.

Strategic alliances have been gradually growing for decades. Since organisational structures would tend to align with processes, alliances strategically offer a potential source of sustainable, competitive advantage. Alliances spread not only the financial risks among the partners but can ensure technological or market access, which proves especially useful when opportunity-rich, but resource-constrained environments confront the company (Vasconcellos *et al*., 1995). In summary, companies form alliances to obtain technology, to gain access to specific markets, to limit financial risk, to reduce political risk and finally to achieve or maintain competitive advantage (Wheelen & Hungar, 2000).

Although many organisations rush to jump on the trends of strategic alliances, their failure rate is projected to be as high as seventy percent. This matter is therefore widely discussed in leading business periodicals because it is important to comprehend the causes. In particular, financial risk is crucial for their survival. This occurs when pursuing a new product or service is too great for a single company to undertake, thereby leading to join alliances to spread the high costs of developing new features (Kalmbach & Roussel, 1999).

Nevertheless, technology also strongly influences strategic alliances. On the one hand, firms seeking competitive advantages are likely to partner with companies which already have advanced technologies. For example, a partner may contribute the specific knowledge for a process which has competitive advantage or a particular skill to complete the final product. On the other hand, those companies wishing to remain at the cutting-edge of technology and plan for long-term growth tend to team up with others by offering different valuable assets.

However, there are also some risks and barriers strategic alliances are facing. Cultural clash is probably one of the most serious problems that firms in alliances are facing today. In particular, language barrier is the first obstacle firms might face, since it is important for managers to communicate and understand each other well. The next barrier facing firms is their operations since different cultures operate in different ways. In particular, national cultural traits directly influence strategic alliances and moderate their relationships according to the perceived technological uncertainty (Steensma *et al.*, 2000).

Lack of clear goals and objectives could be another disaster for any alliance since some companies which previously joined the alliance collaboratively may eventually become more competitive in the future. This tends to cause inability to share the risk because the relative contribution of the partners may become unbalanced over time. Also, when one of the partners is successful and the other experiences a failure, trust is then tested. Firms thus need to enhance mutual trust from responsibility, equality and reliability in order to maintain their commitment of loyalty. Hence, continual cooperation on all issues is essential for a successful and durable partnership (Aaker, 2013).

After all, the main reason why strategic alliances do not meet their expectations is given by '*the failure to grasp and articulate their strategic intent'*, which includes the failure in investigating alternatives to an alliance. The second reason is the '*lack of recognition of the close interplay existing between the total strategy of the company and the role of an alliance in that strategy'* (Financial Times, 1999).

Further, leadership is another factor influencing strategic alliances due to their self-organising management and related properties. These managerial values will then affect performance because social relationships encourage resource exchange (Ireland *et al.*, 2002). In other words, managers involved in international alliances have to build structural and social bonding as antecedent to trust and commitment to increase relational assets (Rodriguez & Wilson, 2002) through a positive attitude and behaviour involving their reciprocal relationships to emphasise the intangibility of vision and values (Kothandaraman & Wilson, 2000). This factor leverages the alliance knowledge worldwide, thereby achieving the informal coordination to become a more trans-national company (Bartlett & Beamish, 2013).

The dynamics of co-opetitive partnerships

The stages of the gradual development of an alliance can be given by the sequential phases of formation, consolidation and evolution. In particular, the process of entry of a new partner to an existing alliance is determined by a series of external and internal factors. However, as explained by Faulkner (1995) and later by Cui *et al.* (2002), there are four major managerial elements, briefly called '*the four fits*', which are considered to be vital for the successful management of a collaborative alliance, a brief description of which is outlined in Table 1.

Table 1. The four fits to be considered when selecting a new partner [Adapted from Cui *at al.* (2002)].

Managerial fit	***Brief description***
✓ **Strategic fit**	Compatibility of strategic objectives
✓ **Cultural fit**	Mutual understanding or similar business logic
✓ **Capabilities fit**	Ability to share resources, assets and competencies
✓ **Organisational fit**	Effective monitoring of decision-making processes

First of all, Cui *et al.* (2002) write that the strategic objectives of alliance partners should be compatible. Thus, the quality of '*strategic fit*', according to Faulkner (1995), is able to assess whether or not the parties involved can develop a joint and sustainable competitive advantage for all of the members of the alliance, '*through the complementarity of their resource endowments and core competencies*'. In other words, the skills and assets of all the partners should complement each other in order to achieve a synergistic co-operation of their activities. Similarly, established synergistic working methods need complementary assets for the success of the joint organisation. Faulkner (1995) adds that the partners of an alliance decide to join their strengths following their individual resource seeking processes. However, their needs, although diverse in nature, are preferred to be similar in intensity in order to maintain an overall power balance within the alliance and, therefore, '*achieve competitive advantage through optimal use of their joint value chains*'. This is also related to the fact that it is preferable to have partners of similar size for an alliance to function without obstacles.

In particular, *'cultural fit'* between partners is crucial to run an alliance. It is useful to have partners with different cultures, especially in international alliances, because this stimulates mutual learning. However, each partner should adopt a sensitive approach to the cultural gap existing with the other members and should be flexible enough to compromise. Faulkner (1995) writes that mutual commitment and trust between partners only develops with a continual and reciprocal respect of their cultural difference and customs.

Further, strategic and cultural fits are the crucial criteria to assess the power of a relationship between partners. Although adherence to closely negotiated contractual agreements is the basic rule to start a new partnership, this requirement alone can satisfy short-term relationships only. The extra vital ingredients for the establishment of a long-term relationship are: a flexible attitude to cultural differences, a willingness to learn from a partner using different procedures, a strong commitment to the objectives of the partnership and mutual trust. A matrix of cultural and strategic fit is depicted in Figure 1. Box 2 represents the ideal scenario displaying both strategic and cultural complementarities. The worst scenario is shown in Box 3, since the firms lack the strategic fit to achieve competitive advantage in the market and, in addition, they have problems with cultural issues. An alliance characterised by Box 4 is also quite weak mainly because the partners do not fit strategically. Finally, Box 1 represents an alliance having good strategic fit, but in need of bridging the gap created by cultural differences. Although not an optimal case, Box 1 shows the potentiality of an alliance to improve their ties and develop further (Faulkner, 1995).

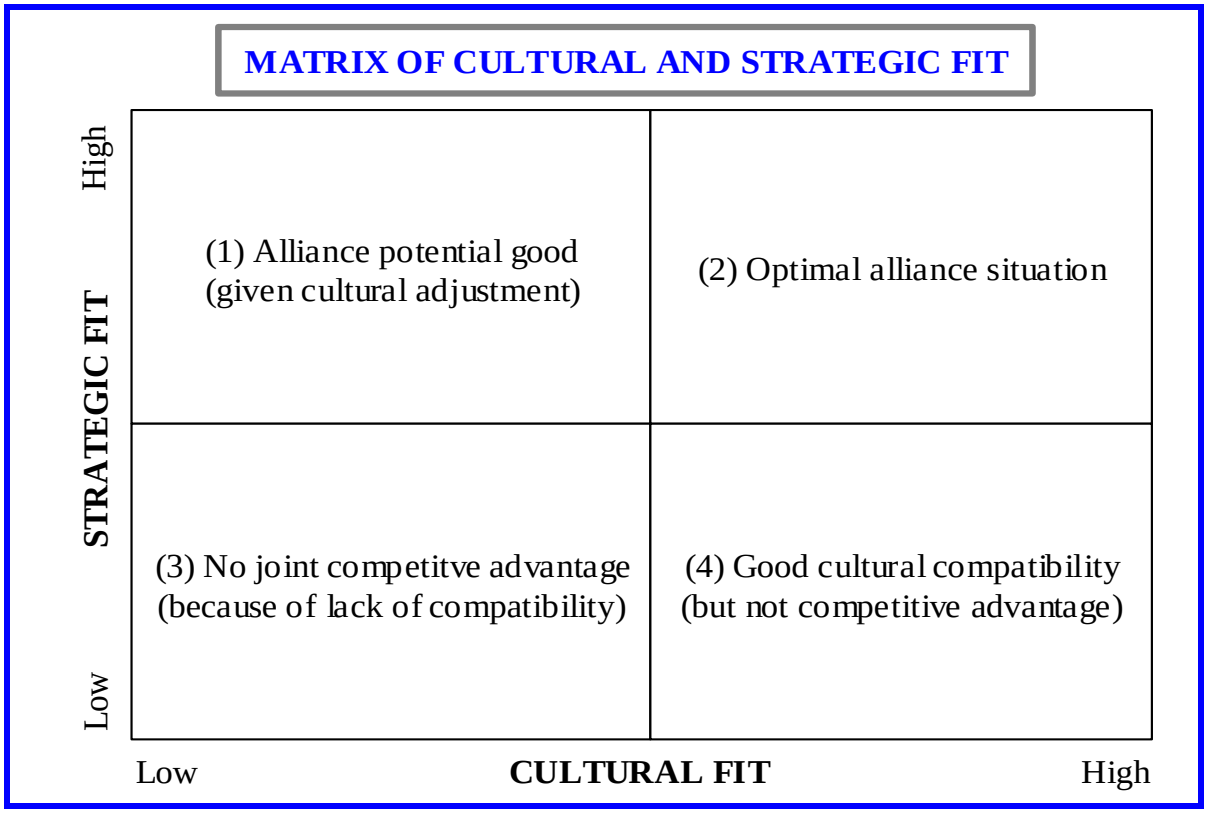

Figure 1. Matrix of cultural and strategic fits [Adapted from Faulkner (1995), p.34].

In addition, a successful strategic alliance requires also two other fits. These are the '*capabilities fit*' and '*organisational fit*', which are observed at all the professional levels. The former, identifies the ability to share resources, assets and competencies within all the members of the alliance. This is very important to achieve the complete integration of the activities of the joint organisation. The latter, describes similarities in the managerial attitudes leading to an effective monitoring of the decision-making processes. This therefore ensures that all the directives are in the interest of the common goals set for the partnership (Cui *et al.*, 2002). In this context, Niederkofler (1991) writes that positive attitudes and well-managed interpersonal relationships sustain this process, since goodwill and trust are thought to reinforce and stabilise the developing mutual linkages by means of improving the communications between the parties.

As alliances enlarge and develop, their management becomes very complex, to the extent that there are no clear guidelines on how to behave, so that Niederkofler (1991) states that '*the key success factors in cooperative processes are widely ignored*'. However, it appears that

managers have the greatest power in guiding alliances especially during their initial development. In fact, a proper managerial conduct is essential to run alliances. Managers are thus recommended to identify joint objectives for the partnership as a whole and develop closer relationships by means of clear communication channels. This is because the constant dissemination of information stimulates interest in the alliance, encourages its support at all hierarchical levels by motivating everyone and guarantees the solid acquisition of a shared knowledge (Harrigan, 1986; Teramoto *et al.*, 1993; Cui *et al.*, 2002).

A successful strategic alliance creates powerful synergies by exchanging competencies among the partners, thereby stimulating a durable and shared competitive advantage. Hence, the natural evolution of this entity is the continuous value creation that is exchanged between each partner within the alliance in a harmonious and balanced fashion (Figure 2). This tends to create value for the alliance in any form which may include enhanced synergies, increased profits and the creation of common core competencies, which are precious instruments for further development. The resulting strong bonding factor, created with this shared commitment to the joint organisation, is the main characteristic which is internalised by the core functions and hence intrinsically related to the alliance organisation (Faulkner, 1995).

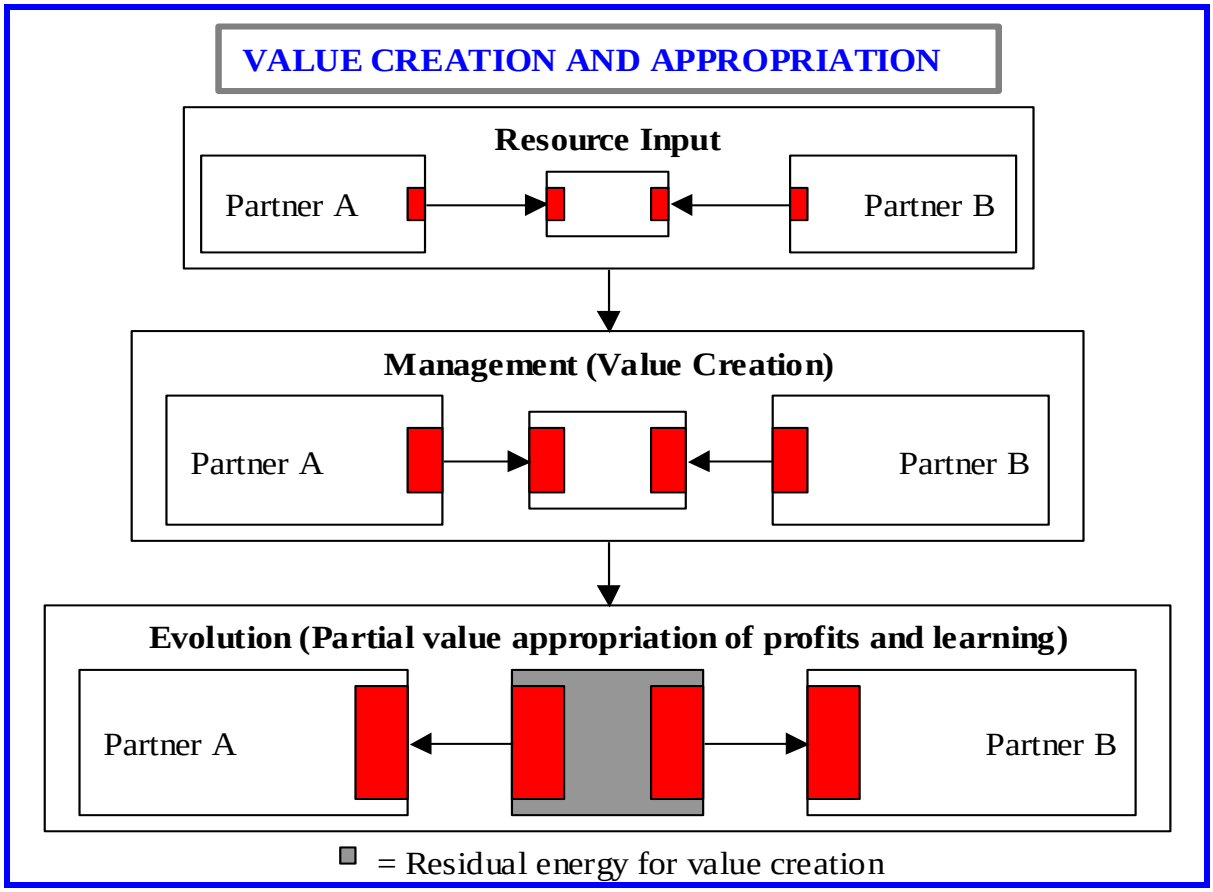

Figure 2. Evolution through value creation and appropriation [Adapted from Faulkner (1995), p.47].

The role of management in exercising guidance is therefore seen as a crucial aspect in alliances. Geringer & Hebert (1989) write that alliance members consider control in terms of the final goal of their activity, the degree of involvement in decision-making processes and the procedures used to exercise their functions. Lorange & Roos (1992) confirm that '*alliances depend for their decisions on building consensus*'. This means that the partnership may suffer if there is a strong power imbalance in the control systems. Also, Kanter (1989) writes that the management of alliances is much different from the management of hierarchies, which tend to control subordinates. In other words, consensus-building, rather than decision-making, is the key to success for international strategic alliances.

In summary, an alliance runs successfully especially if the goals of its partners are congruent. In particular, the complementarities of their strategies are essential to have joint objectives for the alliance as a whole and the interlocking action of their activities is also important in achieving a common vision for the partnership. If alliance members have the same or very

similar strengths in key managerial roles then the alliance may not run smoothly because of an obvious conflict of interests. This is an ever present potential problem in alliances since the partners often tend to obtain advantages from the joint operations, while retaining their individual autonomy on key issues. To conclude, the main factors for a durable and positive evolution of alliances can be listed as follows: the development of strong bonding factors, the attitude for constant learning and reciprocal respect, the perception of balanced benefits and the cyclical development of new strategic roles and key projects run by all the parties.

The commercial aviation industry

The commercial aviation industry is complex and driven by technological innovation, but its overall business performance is often cyclical and linked to major events occurring around the world (Doganis, 2009). In general terms, economic growth drives air transportation demand while airlines reduce the barrier of distance between countries. After all, '*the effect of changing transportation technologies on 'real' distance causes the shrinkage of the entire world'* (Dicken, 2004). In this context, increases in gross domestic product can explain most of air travel growth and therefore the airline business is interconnected with globalization issues, international trade and foreign direct investment policies of governments, since intense forms of economic intervention in this field can be very beneficial in developing geographical areas and advanced technologies (Boeing Current market Outlook, 2014).

In addition, public policies, including deregulation, constitute key drivers for the development of this sector, leading to completely new industry trends, declining fares, direct services and increased frequencies (Doganis, 2009). As a result, the aviation industry has been restructuring, transforming and even re-inventing its operations in order to meet the challenging tasks of the twenty-first century. All the major airlines are refining their business models, the Internet is providing low transaction costs for various services, international trade is flourishing and manufacturers are launching more efficient aircraft. Hence, the long-term forecast for air travel indicates further growth (Boeing Current Market Outlook, 2014).

In particular, an increased concentration of populations is often held responsible for the bulk of air travel. For instance, the cities worldwide currently with a population greater than 20 million residents are expected to quadruple within the next two decades. The resulting growing urbanisation, with its related economic and industrial links, is likely to increase the

frequency and capacity of air services between major airport hubs. These centres of wealth, commerce and trade are in fact expected to generate an increased demand for air travel. In particular, air traffic in China is booming exponentially, so that the three Chinese cities of Beijing, Shanghai and Guangzhou now statistically constitute the new urban areas where the vast majority of global air travellers originate (Airbus Global Market Forecast, 2014).

The Airbus Global Market Forecast (2005) already predicted that global air traffic would grow through fragmentation and consolidation (Figure 3). The former refers to the creation of new flights between city-pairs, which are not necessarily major airports. Examples of this are given by low-cost carriers. The latter, instead, represents the concept upon which airline alliances are based. This means the further development of principal airports in a complex hub-and-spoke network, which is predicted to be more intense in those metropolitan areas, such as larger Chinese cities, where sudden demographic variations are now taking place. According to the International Air Transport Association (2014), '*the Chinese market in particular has the potential to reshape the air travel industry*'.

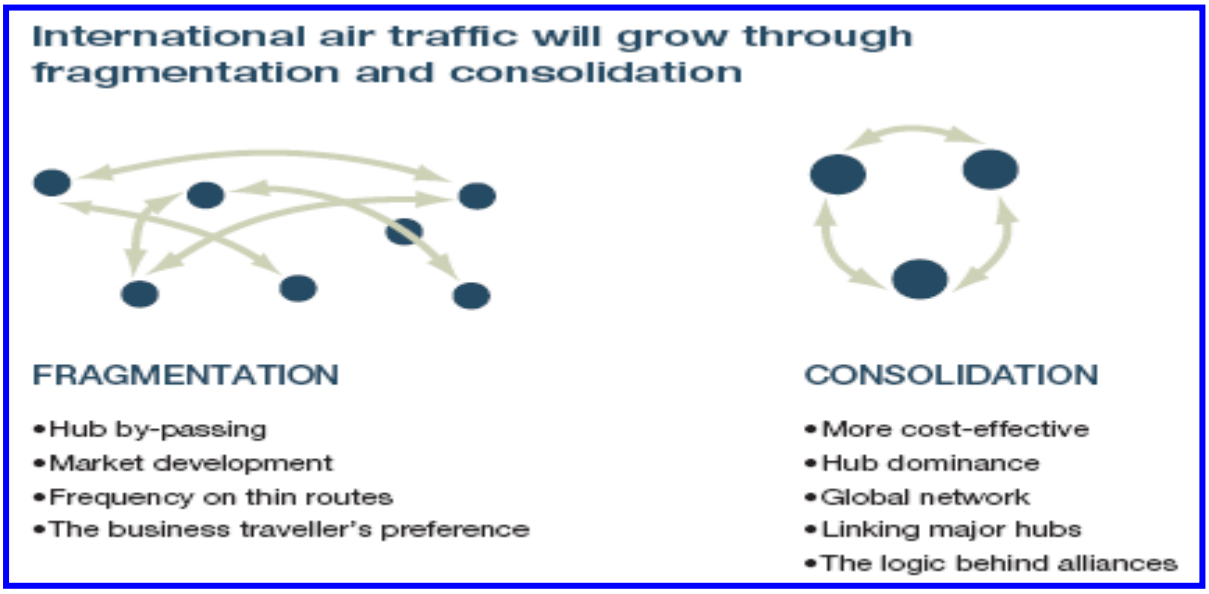

Figure 3. Global air traffic growth [Airbus Global Market Forecast (2005), p.24].

Airline alliances have an unrivalled global network that reaches out to all the corners of the earth. They intend to make global travel smoother, easier, more rewarding and of better value by constantly upgrading their services and offerings. Also they provide a common commitment to high standards of quality, service and safety so that passengers travelling

around the world always feel at home, wherever their journey may take them. Every alliance offers to their customers a one-point-of-contact for all their travel needs by means of their multilingual websites and local customer service centres in six continents, whatever the airline partner they are travelling with. In addition, customers using any frequent flyer programme of one of the airlines of an alliance can accumulate and redeem miles on any other airline of the same partnership (Shaw, 2011; Doganis, 2009; De Durante, 2006; 2014).

In practice, several reasons explain their rapid emergence. On the one hand, a large number of people are demanding to fly to more places, more frequently and at cheaper prices. Also, private and corporate customers are gradually recognising the greater value and benefits which an alliance can offer them, especially when compared to independent airlines. On the other hand, airlines are joining alliances because this helps to boost their revenues and provides numerous opportunities for growth by feeding passengers between their networks. In other words, airlines are realising that it is preferable to be allied to one of these groups in order to maintain their global market share. In fact, no airline is able to serve every market around the world because their operations would be restricted by fundamental rules of business economics and governmental policies (Doganis, 2009; De Durante, 2014).

Airline alliances have shown that they are capable of expanding very quickly by incorporating partners from around the globe. In particular, the Chinese market progressively allowed the inroads of this kind of international strategic alliances. On the one hand, airline alliances were eager to get access to the burgeoning Chinese market because it offers immense growth opportunities. On the other hand, Chinese airlines were looking forward to establishing these partnerships in order to join an extensive global network in virtually every country of the earth. Thus, the study of the Chinese aviation market is of utmost importance to plan a suitable marketing strategy and implement a business development programme. This helps define the scope of this research project which is to determine the selection procedures utilised by airline alliances to identify new members. Since strategic airline alliances are rapidly expanding in a very competitive environment, it is crucial for them to assess the synergistic effect of potential airline partners (De Durante, 2006; 2014).

- **The SkyTeam alliance and its competitors**

The history of airline alliances is about 35 years old as this can be traced back to 1979, when some US airlines started to become interrelated with their frequent flyer programmes (InsiderFlyer Magazine, 2010; American Airlines, 2010). In 1992, the first frequent flyer programme was launched in Europe as well (ICLP Loyalty, 2010). In 1997, Star Alliance, the first truly global airline alliance was created (Star Alliance, 2014). Then, in 1999 and 2000, the oneworld and SkyTeam alliances were also formed, respectively (oneworld, 2014; SkyTeam, 2014). These three main airline alliances have been continually expanding over the past years thanks to addition of new partners (IATA, 2014; ICAO, 2014).

SkyTeam is the global airline alliance partnering twenty members. SkyTeam offers to its passengers from six continents one of the most extensive international networks. This alliance has also international hubs in major airports around the globe and currently has a market share of about 21% out (Figure 4) of the total airline business (SkyTeam, 2014).

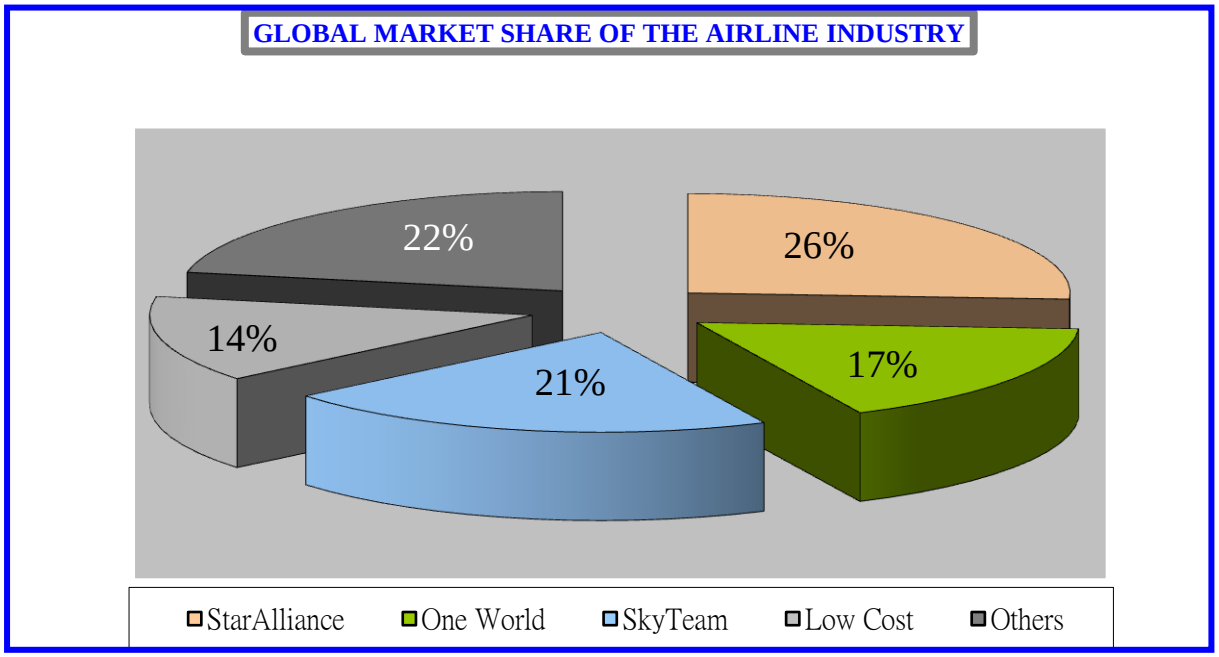

Figure 4. Global market share for the three airline alliances (SkyTeam, 2014).

- **China Southern Airlines and its market**

The Chinese Government started to liberalise its aviation industry in 1988, following the split of the operating divisions of the Central Aviation Administration into independent airlines. The year 1994 represented a milestone in accelerating the deregulation of the Chinese airline industry. This is because the Chinese Government allowed for the first time in history the influx of foreign direct investments for its airports and facilitated the imports of aircraft made outside of the Chinese territory. As a result, the aviation industry developed further. In 1996 the country had 30 airlines and 108 airports nationwide. Recent waves of mergers and acquisitions then consolidated the overall airline business in China by creating three major air carriers: Air China, China Eastern Airlines and China Southern Airlines (BBC Data, 2014).

Lately, Chinese airlines have significantly developed in terms of airline management and operations. However, they still lag behind their major Asian competitors. The recent entry of China into the World Trade Organisation and the continuing governmental policy towards a market economy presents significant challenges to its three main airlines. In fact, around ten new private airlines are now competing with them on domestic routes and this situation is leading to a fierce price war. This reflects the firm decision of the Chinese Government to liberalise this market in the attempt to foster fair competition so that more Chinese people will be able to fly. China is thus expected to become the first largest aviation marketplace of the planet by 2020 (Boeing Current Market Outlook, 2014).

All this means that these major Chinese airlines are required to improve dramatically their managerial capabilities, marketing skills and customer services to attract more local and foreign passengers as well. This is leading them to offer more direct services to foreign destinations from several national airports. These airlines have also placed large orders for Airbus and Boeing recently-manufactured aircraft in order to modernise their ageing fleet, meet expansion requirements, improve flight safety and enhance customer satisfaction in terms of seat comfort and in-flight entertainment. In particular, China Southern Airlines was the first Chinese air carrier to introduce the super-jumbo A380 in China (Airbus, 2014).

The Chinese economic transition over the past years means that this country transformed from a centrally-planned to a more market-based economy. According to Cass *et al.* (2003),

this '*hybridization of Marxism and free-market principles'* inevitably is leading to a mixed-type economy which is in rapid evolution and has also granted China the accession to the wider commercial networks (WTO, 2010), which is seen as an important milestone of the ongoing integration into the global economy. In this context, China Southern Airlines signed the Global Airline Alliance Adherence Agreement with SkyTeam in 2006 and it is a full member since then. The Chairman of China Southern Airlines, Mr Liu Shao Yong, said at the signing ceremony: '*Joining SkyTeam will expand our international route network and flight density and will allow our airline to make full use of SkyTeam's extensive network to extend China Southern flights throughout the world'* (China Southern Airlines, 2014).

To conclude, a model portraying the typical growth forecast for an airline (Figure 5) can be recalled to explain the schematic assessment of several factors, including stimuli and constraints, such as cultural factors, innovation capabilities and branding management issues (Ferreri, 2003). For example, '*in the future, the brands of individual airlines might come to be perceived as the sub-brands, under the umbrella of an alliance-based corporate brand'* (xxx). This implies that China Southern Airlines as well as other alliance members are currently being involved in a rapidly evolving business model which is expected to bring benefits and challenges to the global airline business in the years to come (De Durante, 2014).

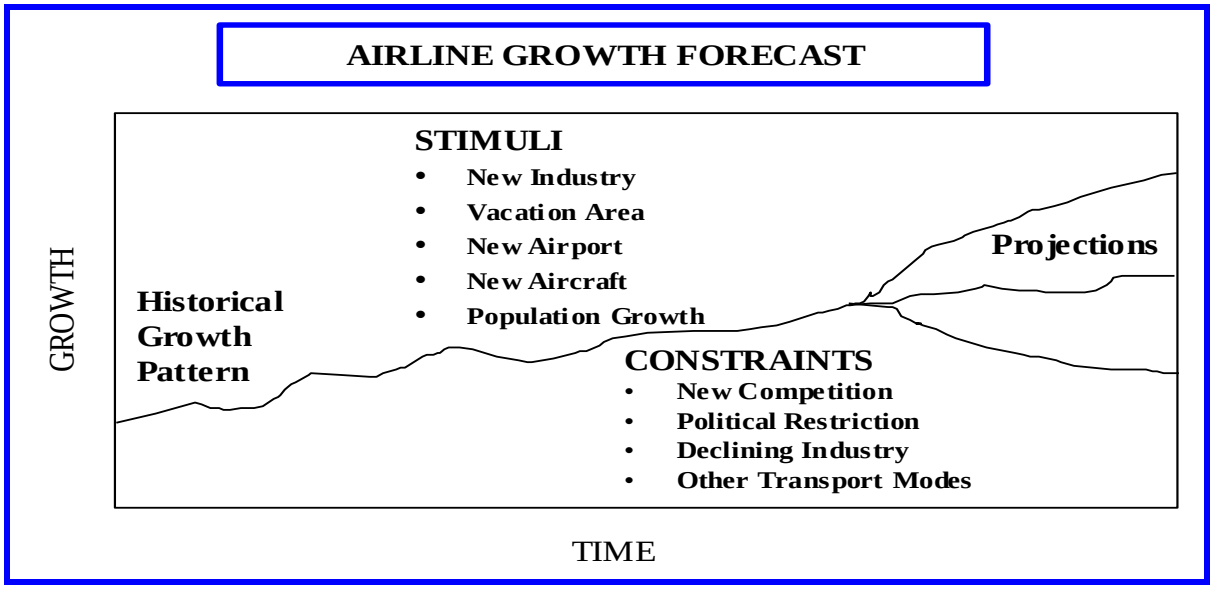

Figure 5. Model for Airline Growth Forecast [Ferreri (2003), p.304].

Research methodology

This work derives from the in depth analysis of a specific case study research about four airlines, that is, Air France, Alitalia, KLM (seen as existing SkyTeam members) and China Southern Airlines (as new entrant), by processing existing information and providing fresh (quantitative and qualitative) data. Ghauri & Gronhaug (2010) write that this method is useful especially because '*the concepts and variables under study are difficult to quantify'*. Also Yin (1994) confirms that a case study approach is normally utilised when '*the researcher has little control over events and the main focus is on a current phenomenon in real-life context'*. As mentioned by Ghauri & Cateora (2014), Usunier & Lee (2012) and Craig & Douglas (2005), the methodology was therefore carefully constructed bearing in mind the crucial importance of the sampling, the ability to communicate opinions and the issues regarding comparability and validity of data across borders and between different cultures.

The research methodology for this work was thus based on a triangulation between preliminary secondary (quantitative and qualitative) data, gathered through the acquisition of specialist information, and primary (quantitative and qualitative) data, obtained by means of the analysis of questionnaires and interviews. In particular, primary quantitative data was collected by means of questionnaires typed in three equivalent versions in three languages, whereas qualitative data was obtained via elite interviews with senior managers. The quantitative analysis of the qualitative data was processed with specialist software which gave useful results in terms of the features for the best managerial fit. As Lyn (1999) suggests, this method offers a well-structured overview of the process, permits access of particular data and display intermediate results in a readable format by using appropriate search-tools. In summary, by combining the methods of Cui *et al.* (2002) and De Mattos *et al.* (2002), the derived methodological framework utilised for this research is illustrated in Figure 6.

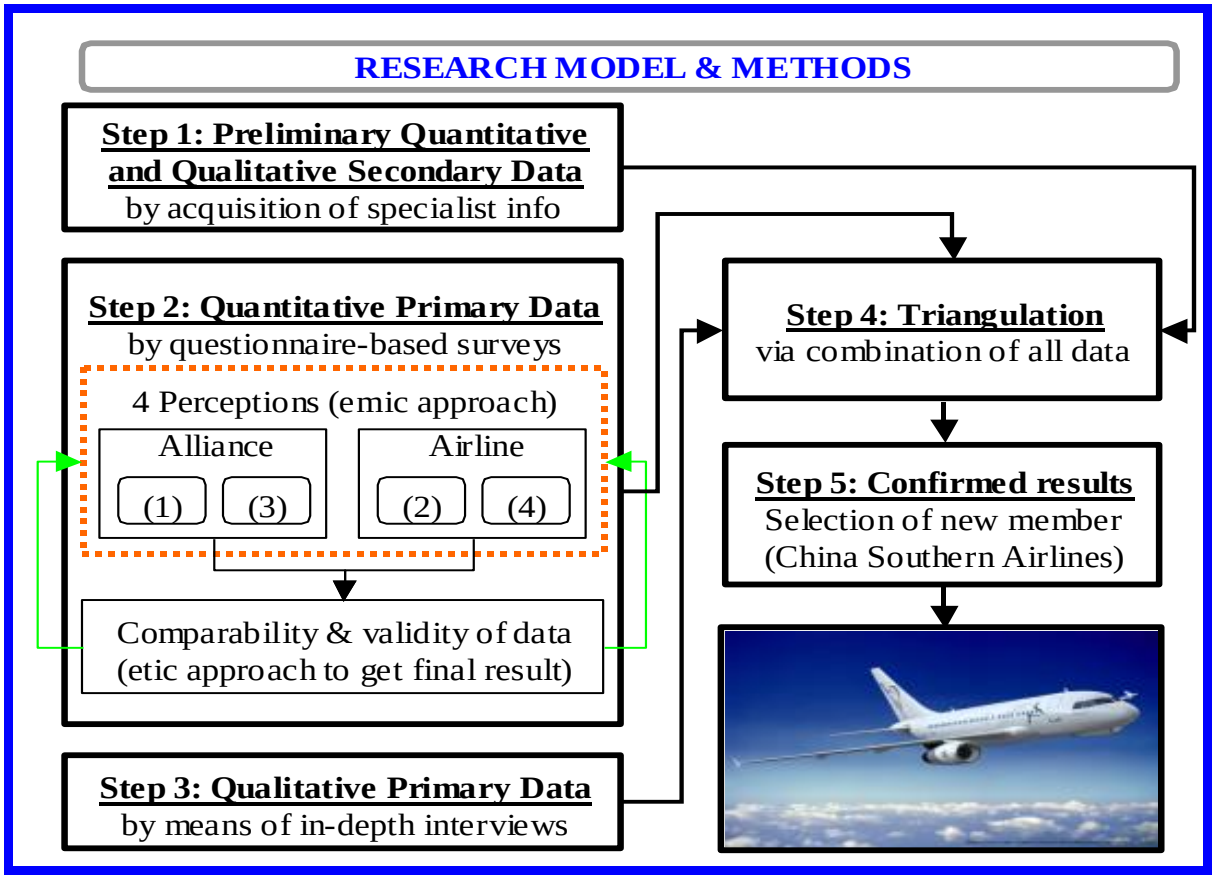

Figure 6. Research model and methods (Author's own diagram).

This research model derives from the analysis of four different perspectives, two at each side: (1) the view of the alliance about their own contributions to the partnership, (2) how the potential member views their own contribution to the partnership, (3) the view of the alliance which explains how the potential partner may benefit from this alliance, (4) and, finally, how the prospective partner views the contribution they can give to the alliance. Thus, this method uses a triangular model in order to predict the synergies of potential partners for a strategic alliance. The four perceptions of the managerial fit are primarily determined as a function of the four fits: strategic fit, cultural fit, capabilities fit and organisational fit. As the Chinese emerging market rises to prominence on the international economic scene, managing the relationship between the SkyTeam alliance and China Southern Airlines is vital to confirm their suitability for the partnership. In detail, the model gives four distinct perceptions about the managerial fit between the two organisations, as shown in Figure 7.

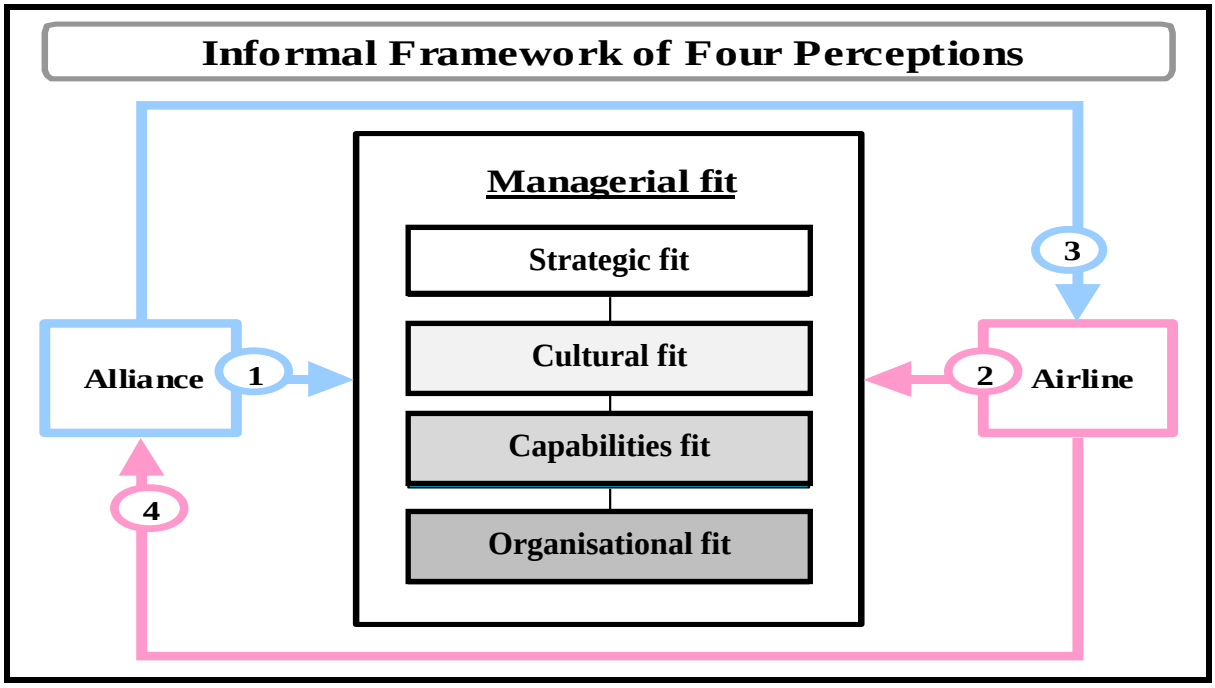

Figure 7. Informal framework of four perceptions (Author's own diagram).

In brief, secondary data were initially collected in order to determine the market potential for the partnership between SkyTeam and China Southern Airlines. These included corporate reports, airline websites, alliance development programmes, airport statistics, consumer satisfaction surveys, annual reports, documents of business analysts and other sources giving a broader picture of the past and present situation of the global airline industry and specifically the aviation market in China. As mentioned above, these preliminary data were collected, administered and visualised by means of modern computer programs, and especially the graphs, tables and statistical analysis gave an overview of the marketing environment by providing the strengths and weaknesses of the strategic choice for the partnership. Then, 300 questionnaires were distributed at key airports within the route network of the four air carriers to collect primary quantitative data which was translated with parallel blind translation techniques. These were subsequently verified by 10 interviews with senior managers. The data collected offered a further insight into these companies and enabled the researcher to read between-the-lines. This method ensured the discovery of a large number of previously unknown details about the partnership.

Interpretation of the results

Secondary data gave a clearer view of the global airline industry and Chinese market. This information was then cross-checked with data from the interviews, the triangulation of which gave an accurate description of the four components of the managerial fit between SkyTeam and China Southern Airlines.

- **Strategic fit**

The main reason for selecting China Southern Airlines from a strategic point of view is the geographic location of its main airport hub (Guangzhou Baiyun), since this site complements perfectly the global network of the SkyTeam alliance. In addition, the surrounding region (Canton Province) has the highest concentration of population, wealth and manufacturing activities in China, which, in turn, creates the ideal preconditions for rapid growth.

The data shows that an excellent strategic fit exists between the SkyTeam alliance and China Southern Airlines. On the one hand, SkyTeam pursues a global business and marketing strategy, is trying to enlarge its network to big emerging markets and to increase the reputation of its brand. On the other hand, China Southern Airlines has a long-established experience of the local market, is aiming at being part of a larger network and is trying to have a more globalised business vision. In addition, they are both looking forward to increasing the joint visibility of their brands and they are also actively promoting mutual technology transfer. Alitalia managers suggested that airlines prefer to be associated with the powerful brand of an alliance in order to be more visible on the global marketplace. China Southern Airlines managers reinforced this opinion by confirming that the entry into the global alliance is expected to identify the brand of their company with the global network of SkyTeam to include the good reputation of all the airline partners.

Alitalia managers confirmed that China Southern Airlines was carefully selected by SkyTeam on the basis of local market potential, network compatibility and regulatory and aero-political issues. KLM managers were also convinced that the Chinese airline can provide an extended network which includes the enormous Chinese market. In this regard, China Southern Airlines managers added that their firm has a superior knowledge of the local market in

China and this obviously represents one of the major contributions given by the Chinese airline to the airline alliance. Also Air France managers added that SkyTeam is focusing on China primarily because this market, which is not yet saturated like others, offers a large room for expansion. In particular, China Southern Airlines complements the existing network of the other SkyTeam partners in South-East Asia and the greater Asia-Pacific region.

All the elements which make up the strategic fit between the two organisations suggest that there is a solid and powerful synergy, characterised by a series of complementary and cohesive strengths, which are predicted to sustain the partnership.

- **Cultural fit**

The analysis of the cultural fit has found that profound cultural differences exist between the two companies. This is partly due to the composition of their workforce. Employees of SkyTeam usually are of different nationalities, whereas those working for China Southern Airlines are almost all Chinese nationals. Intercultural exchanges are actively promoted especially by SkyTeam to improve the working environment, while China Southern Airlines lags behind in this field. In addition, although it is always preferable to work as a part of a team, it has also been learnt that employees of China Southern Airline tend to work always in groups, while in SkyTeam some degree of individual initiative is considered positively. In fact, original thinking deriving from individualism can be a source of creativity for the company and therefore is rewarded. Furthermore, the concept of time is totally different. Time is money for SkyTeam managers, which means that time management and punctuality is very important. China Southern Airlines managers, instead, pay more attention to the final result no matter how much time is required to achieve it. However, it is worth mentioning that both organisations are committed to achieve excellence in their workplace by abiding to the framework of legal and economic laws.

The importance of understanding different cultures has been confirmed by all of the interviewees. Alitalia managers mentioned that the cultural complexity of the SkyTeam alliance is significant. Therefore, cultural differences at both corporate and national levels exist between different members, including within regional areas. Although some problems of communication may occur, cultural differences are a vital part of the foundation stones upon which an alliance is based. Hence, the entry of China Southern Airlines intensified the

cultural-mix of the alliance and therefore reinforced the principles of mutual respect for the cultures of other members. In this regard, Alitalia managers said that it is vital to be flexible when working with people of other nationalities, but also added that the presence of cultural differences among colleagues of other nationalities allows learning quickly the customs of other employees in a multi-cultural environment. In this context, they added that it would be very useful to receive basic knowledge of other languages as part of a corporate programme.

- **Capabilities fit**

This part gave some hints in terms of the capabilities fit of the alliance. SkyTeam is able to position itself successfully in the global market, while China Southern Airlines tend to have a localised marketing focus. These two capabilities complement each other, especially because SkyTeam has a tradition in managing multicultural groups, while China Southern Airlines is very good at dealing with local employees. Mutual cooperation in this field is expected to facilitate the overall integration of their social networks and also their customer services. In this context, Alitalia managers confirmed the ability of the alliance to work with local employees, to coordinate international groups and to acquire precious knowledge about the local market as well. In particular, Alitalia managers said to have an excellent experience of working with local employees as well as of coordinating and training a multi-cultural workforce for several years and thus have been assimilating useful knowledge about other markets. China Southern Airlines managers appeared to be in tune with these efforts since they also stated that they have been gradually trained to deal with an international workforce.

As far as technological and information systems are concerned, SkyTeam appeared to have more experience than China Southern Airlines in integrating business networks, including those of frequent flyer programmes. Air France, Alitalia and KLM managers said that a number of technological differences currently exist between the Chinese airline and the global alliance. However, China Southern Airlines is making considerable investments to bridge these gaps. In fact, they are continually upgrading their fleet with the latest aircraft, investing in superior IT services and enhancing the customer services features.

In the important field of customer loyalty for the Chinese market it has been found that the number of users of frequent flyer programmes in China is very limited when compared to the

potential customers. Therefore, the SkyTeam alliance together with China Southern Airlines is expected to cooperate in improving the passenger loyalty programmes.

Alitalia managers said that their company utilises very advanced training facilities available for most of the aircraft models. In this context, cooperation with China Southern Airlines can be very important to share knowledge. Another area where cooperation is vital is given by the standardisation of the norms for flight safety. This is much needed to enable the smoother application of common directives for every airline and the alliance. Thus, the eventual internal harmonisation of the regulations for flight training standards across SkyTeam partners would tend to facilitate the multitude of operating tasks.

- **Organisational fit**

With regard to the organisational fit, it has been acquired that there are some fundamental differences in the structure of their companies. On the one hand, China Southern Airlines has in place very strict hierarchical trees, which provide excellent control over subunits in a centralised structure. On the other hand, the SkyTeam alliance is based on a more transnational structure, which ensures a good control over subunits and more importantly achieves consensus-building among the partners. In these circumstances, China Southern Airlines are expected to adopt a more integrated structure aiming at creating consensus among all the partners. In this context, China Southern Airlines would then need to improve management procedures to take into account feedback loops, which safeguard general standards. In addition, since the working environment of China Southern Airlines is characterised by informal relationships (i.e., guanxi) which significantly tend to influence decision-making, SkyTeam managers are therefore required to comprehend these phenomena in order to communicate easily and effectively with their Chinese counterparts. Managers of Air France, Alitalia and KLM suggested that this could ultimately be obtained by integrating successfully technological and organisational innovation within the entire partnership.

In more detail, Alitalia managers portrayed the organisational structure of SkyTeam. This consists of the Governing Board, formed by all the Chief Executive Officers of the single airlines, and the Steering Committee. The former sets the strategic directives and supervise their operations. The latter, instead, takes the technical decision to implement them. This system fits well with the different organisational structures of member airlines. KLM

managers stated that SkyTeam is therefore like an interface which homogenises the different managerial architectures of its airline partners, including China Southern Airlines, by strengthening their ties and amalgamating their hierarchical structures.

It has also been noted by interviewing Air France, Alitalia and KLM managers that their respective companies provide them with sufficient elements of training about the SkyTeam alliance, including information about the members and the agreements of the group. This means that each airline actively contributes to the development of SkyTeam by training their employees in assimilating general knowledge about the alliance as a whole.

Conclusions and suggestions for further work

Nowadays, the growing interdependence among firms makes the building of stronger international businesses a necessity. Therefore, the trend towards strategic alliances is clear. Technology transfer and the internationalisation of markets have driven global firms to look at each other more as alliance partners rather than aggressive opponents.

International airline alliances are based on the intense collaboration of their members. Hence, the selection of a new partner is obviously one of the principal factors in the success of these joint enterprises. In particular, this research has confirmed that a good managerial fit between the parties is essential to define their potential synergy, which is in turn vital to implement the common business strategy of the entire alliance.

A number of conclusions can be drawn from the triangular analysis of secondary data collected from the literature and primary data empirically collected during the research field activities, mainly based on distribution of questionnaires and interviews. The combination of all the information gathered with the combined method described above has provided an in-depth knowledge of the four components of the managerial fit.

All in all, it has been found that the managerial fit between SkyTeam and China Southern Airlines is based on a solid strategic fit, which is the most important factor in the starting phase of the alliance. However, the entire alliance needs to work hard to improve the cultural fit. Mutual respect and flexibility for the culture of the other party is paramount to develop

the partnership in the future. Both sides need continual cultural and language training to overcome the barriers existing between the two firms. Also, it has been noted that the two airlines have quite diverse capabilities and organisational fits. However, their complementarities should ensure a good match between the two firms, despite their differences, and reciprocal learning would eventually allow them to work in harmony.

Almost all of their differences in the four components of the managerial fit tend to complement each other by stimulating reciprocal learning and understanding. Their joint commitment to provide resources, knowledge of the market and efficiency is also leading to a long-term and successful relationship between all of its partners. This is permitting the alliance to operate effectively in every situation and region of the world.

One of the limitations of these studies is given by the fact that the data collected to represent the SkyTeam alliance is mainly based on three airlines, that is, Alitalia, Air France and KLM. Although the total number of questionnaires represented a statistically valid sample for social science research, it is important to point out that the final results were thus determined by using a limited section of all the possible respondents. It is therefore advisable to extend the research to every member airline in order to determine their point of view as well.

Further research in this field should try to find a way of avoiding any biases deriving from all the aspects of the work. The best option available appears to be the one of conducting a sort of ethnographic research so that the full-immersion of the researcher in the field could reveal more in-depth, peculiar and also previously hidden findings.

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