EMBRY-RIDDLE
Aeronautical University
WORLDWIDE

MGMT 425 – TRENDS AND CURRENT PROBLEMS IN AIR TRANSPORTATION

CASE STUDY – STAR ALLIANCE

- Review Chapter 15, Cooperation in Air Navigation Services: Is Globalization Arriving in the World of ANS? by Manjit Singh from the Department of Civil Aviation Malaysia in *Air Transport in the 21st Century: Key Strategic Developments* (pp. 329-352).

- Review the attached excerpts from the dissertation on the Star Alliance by Debora Silva dated May 20, 2012 (full dissertation is available through the Hunt Library).

  Silva, D. B. G. Q. (2012). *Co-evolution of strategic alliance between multiple partners in the same industry: A case study of a global airline alliance: The star alliance*. The George Washington University.

- Answer the following case study questions:

  1. What are a few benefits of airline alliances to airline travelers?

  2. Summarize the changes over the past two decades in globalization. Explain the pros and cons for airlines joining an alliance.

  3. What do you see for the future of airline alliances?

ABSTRACT OF THE DISSERTATION

This single qualitative case study examined the co-evolution of the Star Alliance from 1997 through 2010. Data consisted of historical documentation and in-depth interviews of nine individuals connected with the Star Alliance and the commercial aviation industry. Validation methods, including member checks, triangulation, and peer review, were used to ensure trustworthiness.

Four main findings were revealed. (1) The Star Alliance co-evolved as a complex adaptive system. Both the alliance and its airline members were in constant evolution and had to self-organize and adapt to their complex environment. As complex adaptive systems, the Star Alliance and its member created ways to collaborate, survive the industry cycles, and adapt to a very competitive, dynamic, unpredictable, and globalized world environment marked by uncertainty. (2) The Star Alliance transformed the competitive landscape in the commercial aviation industry, paving the way for increasing competition between global airline alliances rather than between individual airlines. (3) The Star Alliance allowed numerous benefits to both passengers and airline members. Two factors appeared to be especially important motivators for joining an alliance: the strict regulatory restrictions in several countries that limit foreign ownership and the ability to access new markets at a low risk and minimum investment. Through its co-evolution, the Star Alliance expanded its global reach by serving more destinations as well as responding to global demands by providing more benefits for travelers and its airline members.

INTRODUCTION

The business environment has been changing dramatically, especially in the past two decades, with globalization, the high speed of new technology changes, short product life cycles, a more competitive marketplace, more demanding customers, and more diversified employees. In the midst of this chaotic environment (Colvin, 2006), organizations need to continuously review their strategies in order to attain or maintain a competitive advantage in their market segment (Hamel & Prahalad, 1994; Mintzberg & Waters, 1985; Mintzberg, Ahlstrand, & Lampel, 1998; Porter, 1985, 1996; Quinn, 1978). Thus, organizations face the following dilemma: Should they develop new products or services alone, or should they seek collaboration with other organizations by forming strategic alliances?

The 1980s were marked by a high number of mergers and acquisitions, and to this day they are still common. However, mergers and acquisitions have resulted in disenchantment due to the challenges related to integrating different organizations. For this reason, strategic alliances became a more common strategy for organizations. Strategic alliances offered a way to expand businesses without the complications of integrating them (Dussauge & Garrett, 1999). In the 1980s, the focus of strategic alliances was on shared equity, such as joint ventures (Contractor & Lorange, 1988), in which two or more organizations formed a separate legal entity and each organization owned a number of shares of this entity.

By the mid 1990s, approximately 80% of alliances created were in the form of nonequity alliances, a type of contractual collaboration without formation of a legal entity. (Bamford, Gomes-Casseres, & Robinson, 2003). This represented a shift to a more complex form of strategic alliance with multiple organizations such as constellations (Bamford et al., 2003; Das & Teng, 2002b; Gomes-Casseres, 1996; Lazzarini, 2007; Lorenzoni & Ornati, 1988). In constellations, organizations form an alliance with many other organizations and the way they manage collaboration inside their constellation affects the performance of the whole alliance. On the other hand, it is important to distinguish between an alliance constellation (Gomes-Casseres, 1994), which represents a multipartner alliance, and an alliance portfolio, which refers to multiple alliances that a single company has with several other partners (Hoffman, 2007; Wassmer, 2010).

There are many reasons why organizations choose to join or form a strategic alliance. One of the basic reasons is to be successful in developing, manufacturing, or selling products and services when the organization cannot do so alone. Another reason is that due to uncertainty, risks, and changes to the business environment—such as globalization and the high speed of technology—organizations look at cooperative strategic alliances as a way to develop new, innovative products and services; promote renewal; and strengthen their competitive advantage (Hamel, Doz, & Prahalad, 1989; Hamel & Prahalad, 1994; Porter, 1985; Quinn, 1978). As the environment changes and there is increased market demand, organizations form or join alliances as a way to adapt to a changing environment (Park, Chen, & Gallagher, 2002). Today, organizations are relying on adaptability and loosely coupled structures such as strategic alliances to be competitive in a very complex and demanding market.

Although strategic alliances provide many benefits for the alliance members, strategic alliances also have high risks (Das & Teng, 1998, 2000a) and are marked by a significant level of complexity (De Rond & Bouchikhi, 2004), which results in high failure rates (Hamel et al., 1989) in some cases, with a general failure rate as high as 75% percent (Dyer, Kale, & Singh, 2001). In some cases, alliances are formed with a predetermined lifespan, and the partners know ahead of time that the alliance will be terminated by a certain time. In other cases, the alliance partners realize that they have learned enough from each other and, as a result, the alliance is terminated (Hamel, 1991)

However, despite the risks, organizations continue to seek collaboration with other organizations. The slogan ―cooperate in order to compete is becoming more popular than ever (Faulkner, 2003, p. 154). Surveys by Booz-Allen Hamilton revealed that ―more than 20% of the revenue generated from the top 2,000 US and European companies now comes from alliances (Harbison, Viscio, Pekar, & Moloney, 2000, p. 1). Cooperation among organizations through alliances will continue to be a dominant force in the business world.