

## Chapter 67

# How Do Pre–Alliance Motives and Strategies Affect Post–Alliance Performance in the Airline Industry? A Future Research Agenda

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### ABSTRACT

*The global airline industry has currently experienced major changes toward cooperation, where competitive advantages can be built via alliance memberships. The pressure of forming an appropriate alliance strategy is increasing because the airline industry has currently experienced uppermost shifts: intensive rivalry, rapid growth of technological explosion, environmental and terrorist events, etc. Despite positive pre-alliance motivations as recognized in most cases, after certain alliances strategies are formed and implemented, the post-alliance performance is not always satisfactory. Thus, the question of: how do pre-alliance motives and strategies affect post-alliance performance in the airline industry seems under explored. This study therefore looks into the triple relationships among: motives, strategy and performance. This study employs a systematic literature review method for this research topic. The review explores the main factors consisting of each triple dimension and then the linkages between them. Subsequently, it identifies theoretical gaps which indicate areas of further investigations.*

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## INTRODUCTION

The global airline industry has currently experienced uppermost changes such as an intensive rivalry, a rapid growth of technological explosion, environmental and terrorist events, regulations, new entrants etc. These forces have shaken the airline industry. Hence, airline corporations have to sustain their competitive advantages and performance that can be built through alliance memberships. The pressure of forming appropriate alliance strategy is increasing due to the above forces. In fact, there are three major global airline alliances. The largest one is Star alliance, which in 2011 hold 26% of the market measured by available seat kilometers; the second is Skyteam with 15%; the third one is Oneworld with 14% (Centreforaviation.com). In summary, each alliance demonstrates that pre-alliance motives, strategies and performance are inter-related.

In the last two decades, the growing body in the literature has explored relationships in the inter-firm alliances and their impact on the firms' performance (Baum, Calabrese, & Silverman, 2000; McEvily & Zaheer, 1999; Rowley, Behrens, & Krackhardt, 2000). For example, several scholars also apply theoretical arguments to the airline alliances to understanding how to improve performance as indicated by consumers' welfare and perceptions (Brueckner, 2001; J. Park, 1997), fares, passenger volume and traffic output (Brueckner & Whalen, 2000; Oum, Park, & Zhang, 1996; J. Park, Park, & Zhang, 2003). Despite positive pre-alliance motivations as recognized in most cases, after certain alliances strategies are formed and implemented, the post-alliance performance is not always satisfactory. Therefore, the question of: how do pre-alliance motives and strategies affect post-alliance performance in the airline industry seems under-researched. This study thus explores the triple relationships among: motives, strategies and performance.

The first element of triple relationships is the motives of alliance. Firms may have variety of incentives to engage in an international alliance such as building a global network, seeking entry opportunities of foreign markets, and reducing cost (Gudmundsson & Rhoades, 2001). These motives provide only part of the story. Additional reasons can be institutional conditions such as regulations and norms that shape the growth of this particular industry (Luo, 2007). Strategic partnerships provide airlines a platform to share risks and collectively respond to institutional restrictions (Amankwah-Amoah & Debrah, 2011). When two or more airlines join the membership of strategic alliances, they can better access to scarce resources (Oum, Park, Kim, & Yu, 2004), transfer knowledge (Inkpen, 1995), and operational cost reductions (J. Park, Zhang, & Zhang, 2001). Therefore, alliances may arguably enhance firm's competitive advantage which influences firms' performance. This debate has not been well established in the airline industry.

The second element of the triple relationships is firms' alliance strategies. The types of alliances range from a full integration of different firms to a simple market exchange between airlines (Z. Chen & Ross, 2003). One of the most often adopted alliances is code-share agreements, by which partners acquire and exchange strategic information (Min & Mitsuhashi, 2012; Weber, 2005). Revenue sharing is another form of airline alliances. It can be defined as a joint activity of share revenues between two or more airlines (Gudmundsson & Rhoades, 2001). Joint ventures are also popular by firms' joint development and collaboration to pool resources in order to benefit from operational synergies (Dussauge & Garrette, 1995). In addition, Lazzarini (2007:346) suggests constellations are the "alliances among multiple autonomous firms, such that these groups compete against each other in the same or similar

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