

This item is held in Loughborough University's Institutional Repository (<https://dspace.lboro.ac.uk/>) and was harvested from the British Library's EThOS service (<http://www.ethos.bl.uk/>). It is made available under the following Creative Commons Licence conditions.



creative
commons
C O M M O N S D E E D

Attribution-NonCommercial-NoDerivs 2.5

You are free:

- to copy, distribute, display, and perform the work

Under the following conditions:

 **BY:** **Attribution.** You must attribute the work in the manner specified by the author or licensor.

 **Noncommercial.** You may not use this work for commercial purposes.

 **No Derivative Works.** You may not alter, transform, or build upon this work.

- For any reuse or distribution, you must make clear to others the license terms of this work.
- Any of these conditions can be waived if you get permission from the copyright holder.

Your fair use and other rights are in no way affected by the above.

This is a human-readable summary of the [Legal Code \(the full license\)](#).

[Disclaimer](#) 

For the full text of this licence, please go to:
<http://creativecommons.org/licenses/by-nc-nd/2.5/>

Strategy Development in Olympic Airways in the Air Transport Liberalization Era

by

Konstantinos N. Malagas BSc., MSc.

**A Master of Philosophy Thesis submitted in partial fulfilment of the requirements for the
award of**

Master of Philosophy of Loughborough University

(2005)

© by Konstantinos N. Malagas 2005

Abstract

Liberalisation, commercialisation and technological advances have forced organisations to adapt. Successful adaptation depends on the ability of senior managers to formulate and implement strategies that ensure services respond to the needs of today's industry.

Few industries are as competitive as the airline industry. Moreover, the development of the airline industry is increasingly interlinked with the global economy. All airlines have introduced a range of strategies in an attempt to ensure their long-term competitiveness. The historical analysis of the implemented strategies in conjunction with performance may assist firms to avoid the mistakes of the past and improve their choice of strategies in the future to optimise performance.

The thesis investigates the implementation of Porter's generic strategies and market orientation concept within Olympic Airways for the period 1990-2001, including the inter-relationship between these groups of strategies, and the resulting impact on airline performance.

Olympic Airways has been selected because it presents interesting peculiarities as an airline. It is a nationalized carrier that enjoyed a monopoly in the domestic market for about forty years until European aviation liberalization changed the framework of operations. It has also had to cope with strong unions and much Government intervention.

The literature review highlighted Porter's (1980) concept of generic strategy and Market Orientation concept, as epitomised by the work of Kohli & Jaworski (1990) and Narver & Slater (1990) as key strategies to implement. The adoption of appropriate combinations of these strategies by Olympic Airways could enable it to overcome some of its long-term inefficiencies and enable it to offer a

competitive advantage over its domestic and international competitors. However, the literature also identifies that the effectiveness of a specific strategy depends on the time period that the strategy is applied, hence the research into the period 1990-2001.

The data collection consisted of gathering secondary statistical data and conducting a number of qualitative interviews with senior managers at Olympic Airways. The results of the combined quantitative and qualitative analysis lead to useful conclusions regarding the application of Porter's generic strategies in conjunction with Market Orientation concept in the airline context and the resultant impact on Olympic Airways performance.

The lack of any clear strategy for the whole of the period 1990-2001 has decisively affected the carrier's commercial and financial performance. Future management should emphasise low cost strategies, which exploit the opportunities that Greece, as a host country, provides. More emphasis should be placed on minimising the carrier's high labour costs. In addition, the carrier should focus on specific geographical areas (domestic and European routes, along with a few strategic long haul destinations) and strengthen its presence in these markets. The carrier must improve its product offering by following some less expensive market orientation strategies (e.g. internet sales, common advertising campaigns, etc.). Also, a radical improvement in interfunctional coordination is necessary. This would give Olympic Airways a competitive advantage in order to achieve survival in the increasingly fierce and deregulated marketplace.

Acknowledgements

Throughout this study I have received assistance and support from a number of people and I would like to take this opportunity to thank them.

Firstly, I would like to thank my Director of Research, Professor Jim Saker, for his assistance throughout my study. I would also like to thank my Supervisor, Dr Vicky Story for her help, advice and guidance, without her the completion of this thesis would not have been possible.

Special thanks go to Dr Alexandra Fragoudakis-Romeos for her help and moral support in difficult times. I would also like to thank Dr Alexandros Skandalakis for his support.

Many thanks to Olympic Airways for your support all these years.

I am also very grateful to the Olympic Airways Managers that I interviewed for the contribution of their time, answering my questions, sharing their experience and knowledge with me.

Finally, my gratitude is due to my parents, Nikolaos and Anastasia Malagas for their encouragement and support during all these years.

Contents

Abstract	i
Acknowledgements	iii
Table of Contents	iv
List of Figures	vii
List of Tables	x
Chapter 1	
Introduction	1
Chapter 2	
<u>The Airline's Industry Environment</u>	
2.1 The Current Situation of the Airline Industry	6
2.2 Trends in the Global Airline Industry during the 1990-2001 period	14
2.3 Market and product characteristics of the airline industry	30
Chapter 3	
<u>Olympic Airways</u>	
3.1 Olympic Airways Profile	37
3.2 Olympic Airways Performance	44
Chapter 4	
<u>Literature Review</u>	
4.1 Strategy Formulation and Implementation	59
4.2 Porter's Generic Strategies	65
4.2.1 Alternative to Porter's theories	67
4.2.2 Cost Leadership Strategy	69
4.2.2.1 Cost Leadership and the Airline Industry	73
4.2.3 Differentiation Strategy	81
4.2.3.1 Differentiation Strategy and the Airline Industry	88

4.2.3.2 Measurement of Differentiation	92
4.2.4 Focus Strategy	93
4.2.4.1 Focus Strategy and the Airline Industry	96
4.2.5 'Stuck in the Middle'	97
4.3 Market Orientation	100
4.3.1 Discussion of the Market Orientation Concept	113
4.3.2 Market Orientation and the Airline Industry	130
4.3.3 Summary of Market Orientation	138
4.4 Combination of Porter's Generic Strategies and Market Orientation	139

Chapter 5

Methodology Design

5.1 Introduction	145
5.2 The Case Study Method	145
5.3 Use of Qualitative and Quantitative Research in Case Studies	150
5.4 Research Design Process	152
5.5 Data Analysis	172

Chapter 6

Results

6.1 The Implementation of Porter's Generic Strategies in Olympic Airways	175
6.1.1 Olympic Airways Total Costs	176
6.1.2 Olympic Airways Labour costs	185
6.1.3 Olympic Airways Sales Promotion and Advertising costs	189
6.1.4 Costs for On-board Passenger Travel	191
6.1.5 Olympic Airways In-flight Entertainment costs	194
6.1.6 Olympic Airways Reservation costs	196
6.1.7 Olympic Airways Passengers Compensation due to Irregularities	200
6.1.8 Olympic Airways Training costs	202
6.1.9 Olympic Airways costs for Staff Uniforms	204
6.1.10 Airport Charges	207

6.1.11 Passengers Service costs	210
6.1.12 Ticketing, Sales and Promotion costs	212
6.1.13 Distribution of Passengers Travelled	215
6.1.14 Conclusions	218
6.2 The Implementation of Market Orientation Concept in Olympic Airways	222
6.2.1 Customer Orientation	222
6.2.1.1 Customers Complaints	222
6.2.1.2 Punctuality	234
6.2.1.3 Frequent Flyers Programme (ICARUS)	238
6.2.1.4 Convenient Schedules	242
6.2.1.5 Commercial Agreements	250
6.2.2 Competitors Orientation	253
6.2.3 Inter-functional Co-ordination	258
6.2.4 Conclusions	263
6.3 A linkage between Porter's Generic Strategies and Market Orientation Components	266
6.4 Moderators of the Relationship between Porter's Generic Strategies and the Market Orientation Concept	273
Chapter 7	
<u>Conclusions</u>	
7.1 Main Findings	276
7.2 Limitations of the Study and Areas for Further Research	280
7.3 Managerial Implications	281
Bibliography	287
Appendix A	298
Appendix B	304

List of Figures

Figure 2.1 World Scheduled Traffic Development 1990-2001: IATA International & Domestic Services	7
Figure 2.2 Correlation between Economic Growth and International Passenger Traffic, in 1990-2001	8
Figure 2.3 Operating Profit/Loss – Total Scheduled Routes	8
Figure 2.4 World International Load Factor Scheduled Services, in 1990-2001	10
Figure 2.5 World Domestic Load Factor Scheduled Services, in 1990-2001	10
Figure 2.6 Real International Yield Deflated by US Consumer Price Index	11
Figure 2.7 Alliance Survey 2002 – summary by type and start date	20
Figure 2.8 Growth of no-frill carriers	26
Figure 2.9 How costs influence demand	29
Figure 2.10 Choosing an Airline...the Travellers perspective	33
Figure 2.11 Frequent Flyers Programmes (FFPs) Importance	34
Figure 3.1 Olympic Airways Passengers Traffic Seasonality (aver. 1990-2001)	41
Figure 3.2 Pass. Yield (Rev/RPK) in USc Evolution for 1990-2001	46
Figure 3.3 Olympic Airways Load Factors, in 1990-2001	49
Figure 3.4 Olympic Airways and AEA Overall and Break Even Load Factors	50
Figure 3.5 Olympic Airways Market Shares for 1990-2001 and for the international network	51
Figure 3.6 Number of domestic market flights made by Greek carriers	53
Figure 3.7 Domestic market seats offered by Greek carriers	53
Figure 3.8 Domestic market passenger traffic for Greek carriers	54
Figure 3.9 Domestic market passenger load factors for Greek carriers	54
Figure 3.10 Olympic Airways Profits/Losses in 1990-2001	56

Figure 4.1 Porter's Generic Strategies	66
Figure 4.2 The relationship between employees, customers and profitability	125
Figure 4.3 The Interrelationship between Shareholders, Employees and Customers	127
Figure 6.1.1 Olympic Airways total costs in deflated prices (index)	177
Figure 6.1.2 Unit Costs in US cents/ATK	179
Figure 6.1.3 Olympic Airways costs structure in 1978	183
Figure 6.1.4 Olympic Airways costs structure in 1988	183
Figure 6.1.5 Olympic Airways costs structure in 1998	184
Figure 6.1.6 Olympic Airways labour costs in deflated prices (index)	186
Figure 6.1.7 Olympic Airways labour costs per employee in deflated prices (index)	187
Figure 6.1.8 Olympic Airways sales promotion and advertising costs in deflated prices (index)	189
Figure 6.1.9 Olympic Airways on board passengers travelled in deflated prices (index)	193
Figure 6.1.10 Olympic Airways in-flight entertainment costs in deflated prices (index)	195
Figure 6.1.11 Olympic Airways reservation costs in deflated prices (index)	197
Figure 6.1.12 Olympic Airways passengers compensation costs Due to irregularities in deflated prices (index)	200
Figure 6.1.13 Olympic Airways training costs in deflated prices (index)	203
Figure 6.1.14 Olympic Airways uniform costs in deflated prices (index)	206
Figure 6.1.15 Landing and parking charges comparative data of various airports for B737-400 in EURO per 90 minutes	208
Figure 6.1.16 Landing and parking charges comparative data of various airports for A340-300 in EURO per 90 minutes	209
Figure 6.1.17 Passengers Service costs vs total operating costs (%)	211
Figure 6.1.18 Ticketing, Sales and Promotions	

vs total operating costs (%)	213
Figure 6.1.19 Olympic Airways passengers traffic geographical distribution (%)	216
Figure 6.1.20 Olympic Airways offered seats geographical distribution (%)	217
Figure 6.2.1 Main causes of complaints and claims received by Olympic Airways Customer Services Sub-division (1996, number of written complaints)	224
Figure 6.2.2 Analysis of Olympic Airways baggage and passenger claims in 1996	225
Figure 6.2.3 Breakdown of Olympic Airways baggage claims by station area (1996, number of claims reported and analysed, 100%=3,821)	226
Figure 6.2.4 Analysis of the causes of passengers complaints and claims (1996, number of written complaints, 100%=5,448)	228
Figure 6.2.5 Compensation paid by Customer Services Sub-division by category of passenger claims (1996, 100%=7,4 million GDR)	229
Figure 6.2.6 Analysis of the causes of passengers complaints and claims (2000, number of written complaints, 100%=1,002)	230
Figure 6.2.7 Analysis of the causes of passengers complaints and claims (2001, number of written complaints, 100%=1,002)	231
Figure 6.2.8 Analysis of the causes of baggage claims in 2000 and 2001	232
Figure 6.2.9 Olympic Airways percentage of on time departures	235
Figure 6.2.10 Olympic Airways and AEA average departures percentage within 15 minutes	236
Figure 6.2.11 Olympic Airways and AEA average departures percentage within 60 minutes	237

List of Tables

Table 2.1 The Evolution of the Airline Industry Various Parameters (% vs the previous year)	12
Table 2.2 The relationship between Economic and Air Transport Trends	15
Table 2.3 Low cost Characteristics	25
Table 3.1 Olympic Airways Employees Numbers (incl. Olympic Aviation)	40
Table 4.1 Breakdown of Operating Costs	75
Table 6.1.1 Olympic Airways Cost Structure	181
Table 6.2.1 Summer Period Scheduled Departures (July – a typical Monday)	245
Table 6.2.2 Olympic Airways and Competitors Market Share	248
Table 6.2.3 Olympic Airways Commercial Agreements	251
Table 6.3.1 A linkage between Porter generic strategies and market orientation components	269

Chapter 1

Introduction

The purpose of the present thesis is to examine the strategy development process in Olympic Airways over the past 12 years (1990-2001). The detailed examination of Olympic Airways strategies in association with company performance can ensure that in the liberalised environment the carrier will learn from the past so that more efficient strategies will be adopted in the future.

All airlines have introduced a range of strategies in an attempt to ensure their long-term competitiveness. The historical analysis of the implemented strategies, in conjunction with an assessment of performance, can explain why these specific strategies were adopted. Thus, useful conclusions drawn from historical analysis may assist the firm to improve its strategies' efficiency in the future by avoiding the mistakes of the past and optimising performance.

The research area of this study is the airline industry. More specifically, the research focuses on Olympic Airways, the largest and, for many years, the national carrier of Greece.

Olympic Airways has been selected because it presents interesting peculiarities as an airline. Before 1992, the Greek airline industry was characterised by low or a complete absence of competition in the domestic market and by state support via subsidies and general protectionism to the national carrier. Since 1992, liberalisation has been introduced in the Greek market following the EU trend and directives. Consequently, new entrants started to appear, mainly in the domestic market. This liberalisation has lead the market into the intense competition. As a consequence Olympic Airways has been experiencing financial difficulties and declining market share, made worse by the stopping of the state injection of capital funds after 1992. However, it has also created major opportunities for

Greek carriers to expand their services. Therefore, Olympic Airways was forced to face a new competitive environment with very different operating conditions and develop new operational strategies in order to survive.

The varying conditions that Olympic Airways faced during the 12 years examined in this study affected the strategic responses of the airline to these challenges. Nowadays, Olympic Airways also faces privatisation, and is involved in re-engineering its business processes.

The adoption of an appropriate strategy by Olympic Airways could enable it to overcome some of its long-term inefficiencies and enable it to offer a competitive advantage over its domestic and international competitors. Key strategies utilised for this research are Porter's (1980) concept of Generic Strategy, and the Market Orientation concept, as epitomised by the work of Kohli & Jaworski (1990) and Narver & Slater (1990). Whilst there has been criticism of these strategies, e.g. Miller and Dess (1993), Hill (1998), Pitelis and Taylor (1996) for Porter's Generic Strategy and by Greenley (1994 and 1995) for Market Orientation concept, they can still provide a potentially valuable research tool for identifying the strategies of all competitors within an industry (Dess and Davis, 1984, pp. 468-469).

The choice of these theories is based on the literature, the initial stages of the case study research, i.e. the external audit of the competitive environment and internal audit of Olympic Airways, and the insider knowledge of the researcher (discussed in more detail below). This combination of information led the researcher to conclude that, despite the criticisms, Porter's Generic Strategies, enhanced by the additional analysis using the Market Orientation concept, would enable the researcher to understand the strategic direction and the detailed implementation issues necessary to provide insightful conclusions into the future strategies that Olympic Airways should follow in order to overcome the carrier's long term inefficiencies. These theories seem to fit better with examining the

adopted strategies for a medium size airline that operates in a fiercely competitive marketplace.

Separately, each theory has been shown in previous research (for example Dess and Davis 1984; and Hyatt 2001 for Porter's generic strategies theory and Shapiro 1988; Liu 1994 for the Market Orientation concept) to offer significant benefits for firms that adopt them. However, it is also clear that each theory, on its own, provides only part of the picture. Porter's generic strategies provides an overall insight into the strategic position taken by the firm and the Market Orientation concept provides a means of analysing the details of the marketing strategy to achieve this overall position. By combining them it is felt that they will complement each other to provide more detailed conclusions for Olympic Airways than would have been provided by either theory separately.

Therefore, the aim of the study is to examine the implementation of Porter's Generic Strategies and Market Orientation strategies within Olympic Airways for the period 1990-2001, including the inter-relationship between these groups of strategies, and the resulting impact on airline performance.

The evolution of Olympic Airways strategies is examined through the use of both qualitative and quantitative research. Qualitative research, in the form of structured interviews, is used to identify and assess the strategies that Olympic Airways has followed during the period under study. In parallel to the qualitative research, great emphasis has been placed on the collection of empirical data, particularly historical time series concerning the commercial and financial performance of Olympic Airways. The secondary statistical data has been collected from both internal Olympic Airways sources as well as external sources. The data that will be examined will be the detailed tactical level data. This tactical focus has been taken in order to examine the 'realised' strategy of Olympic Airways rather than examining the 'intended' strategy, i.e. what the top management said they were going to do. It is felt that the focus on 'realised'

strategy will provide a better understanding of the actual links between strategy and performance.

The author has worked in Olympic Airways for 14 years and, during the examined period, worked in a number of areas including reservations, ticketing, passenger services and, since 1995 in the market research department of the examined airline. This inside position offers the unique opportunity to obtain greater insights into the organisation, its decision-making and the real life implementation of the adopted strategies. Therefore, of major importance to this project is the author's professional relationship with the airline. This guarantees easy and trustworthy access to the firm's internal information as well as information concerning the firm from external sources, with all these sources being guaranteed confidentiality. Moreover, the author's knowledge of the reality within and outside the airline and his long term professional relationship with the industry - knowing what are the best practices and strategies which the industry leaders have adopted – have contributed to the detailed insights of the study. However, this level of access has been balanced with a level of objectivity, which is a necessary condition in order for appropriate conclusions to be extracted. The author's main interest is to present events and strategies objectively, in order to ensure the overall quality of the study. Conclusions and critical evaluation have been based on data and comments from the managers interviewed.

Finally, examining the research questions is beneficial for academics requesting new insights into strategy development and for practitioners in the airline industry, particularly those who are in the same situation as Olympic Airways. The aim is to show which dimensions of Market Orientation are linked to Generic Strategies dimensions and how this knowledge provides better results in terms of business performance.

The rest of the thesis is structured as follows:

Chapter two presents the characteristics of the aviation industry as well as the trends of development in the period 1990-2001. Thus, the evolution of alliances, the breadth of the low cost low fares airlines and their characteristics and other relative issues to the examined subject are presented.

Chapter three contains the historical development of Olympic Airways, its profile and an analysis of the carrier's performance in the period 1990-2001. The examined airline is presented in a separate chapter in order for a clearer picture of the organisation to be presented.

Chapter four provides a review of the literature relevant to the development of the research. Two areas of strategic emphasis are highlighted in this thesis: firstly Porter's (1980) concept of Generic Strategy; and secondly Market Orientation as epitomised by the work of Kohli & Jaworski (1990) and Narver & Slater (1990). Following this a series of research questions are developed. The possible combinations of the two groups of strategies are also discussed. In addition, the way that these strategies can be applied in the airline industry is presented.

Chapter five presents the methodology adopted in this thesis. A combination of qualitative and quantitative analysis has been utilised in order to provide accurate and meaningful results and shed light to the factors influencing airline performance. Thus, interviews with key managers, secondary statistical data and a large number of documents were used in order to answer to the research questions posed.

Chapter six presents the analysis of the strategies adopted by Olympic Airways in the light of the research questions presented in chapter four.

Finally chapter seven presents the conclusions, limitations of the study, areas for further research and managerial implications for the study. These provide important insights and suggestions for the survival of Olympic Airways.

Chapter 2

THE AIRLINE'S INDUSTRY ENVIRONMENT

2.1 The Current Situation of the Airline Industry

Few industries are as competitive as the airline industry. Moreover, the development of the airline industry is increasingly inter-linked with the global economy. Thus, political instability in many corners of the world, economic peaks and downturns and events external to the airline industry have strong effects on airlines' economics. Although some regions may be less advanced along the curve, in a global economy what affects one, eventually affects all. In the past decade, the airline industry has had to weather a series of global shocks, starting with the first Gulf War and global recession; moving on to the economic meltdown in Asia; the spectre of the millennium bug; and the bursting of the high-tech bubble. Furthermore, local crises such as the conflict in Kosovo, foot-and-mouth disease in the UK or the financial crises of Latin America, created serious problems to the airline industry. The recent 'war of terror' and the outbreak of Severe Acute Respiratory Syndrome (SARS) have also had a great impact on the airline industry (Airline Business, May 2003, pp. 7).

Although the airline sector, more than any other industry, reacted to these crises with unprecedented speed by cutting fleets and workforces, the effect of these events lasted for some years. For example the Gulf War and the terrorist attack on 11th of September, 2001 have continued to influence the financial position of airlines long after the events. The ten biggest American carriers lost 11,3 billion USD in 2002, as a consequence of the 11th of September attack. According to K-H Neumeister, Secretary General of Association of European Airlines, airlines have always been at the mercy of the economic environment, (AEA, Yearbook 1998). In addition, structural changes taking place within the industry itself, such as the implementation of the internet, the emergence of low-cost carriers, the

frenzy for international alliances in 1990's and so on, all affect the fortune of the airline industry (Brutzel and Williams, 2000, pp. 81).

Figure 2.1 presents the passenger, freight and mail traffic for the period 1990-2001. Although the present study focuses on passenger traffic, passenger and freight carried had increased substantially in this period. This long-term growth for air transport could be partly explained by the fact that the cost of air travel has come within the reach of a wider market. According to Boeing (1998), two factors can affect total air travel growth for any country, economic growth and the value created by airlines reducing prices and increasing service offerings. Moreover, lower real travel costs and growing discretionary income, combined with an increasing population and changing lifestyles, is continuing to create a geometric progression in the potential travel population.

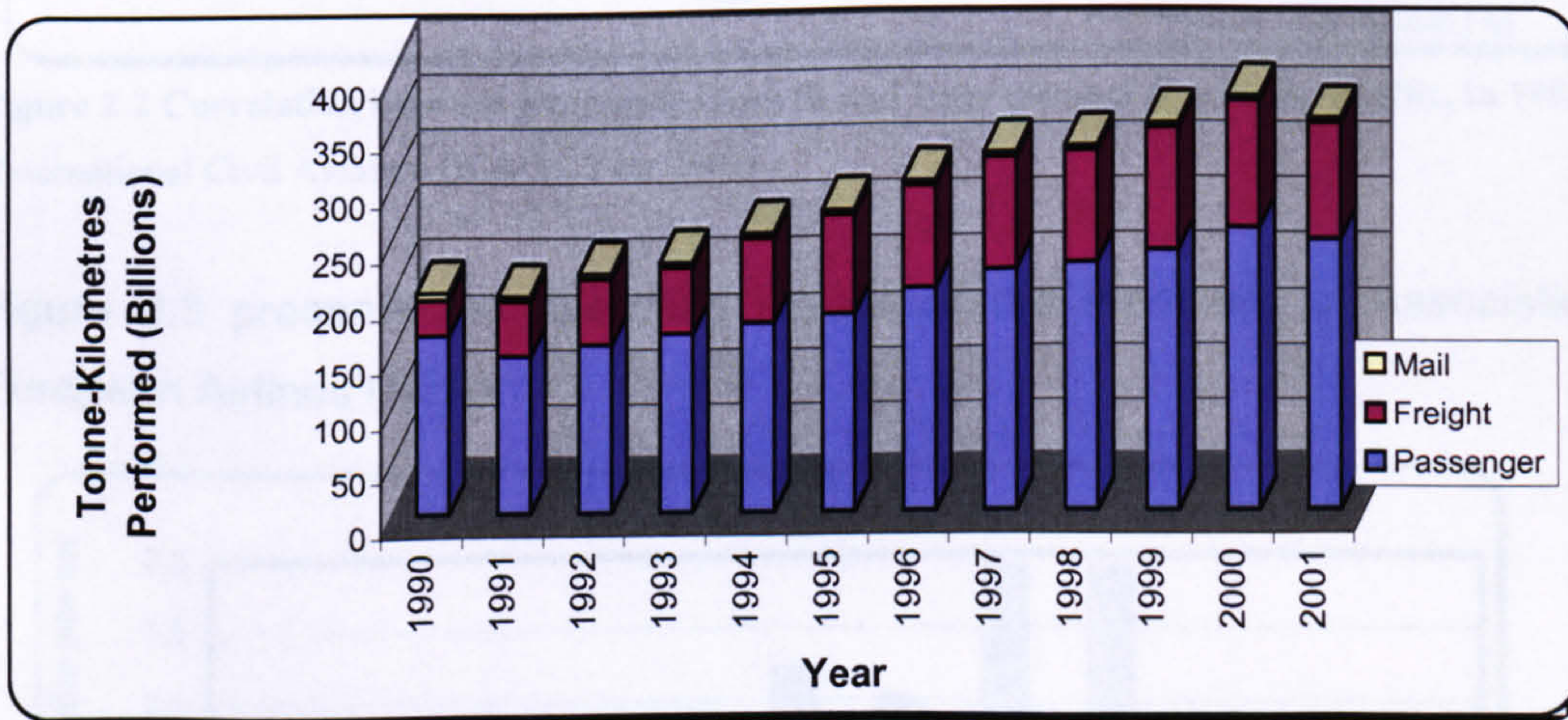


Figure 2.1 World Scheduled Traffic Development 1990-2001: IATA International & Domestic Services (International Air Transport Association (IATA), WATS, 46th ed., 2002)

Figure 2.2 presents the relationship between the evolution of world gross domestic product (GDP) growth and the world passenger traffic growth. It is clear that these parameters are positively correlated. In addition, this figure represents how the Gulf War in 1991 and the terrorist attack on 11th of September, 2001 have negatively influenced the GDP and passenger growth.

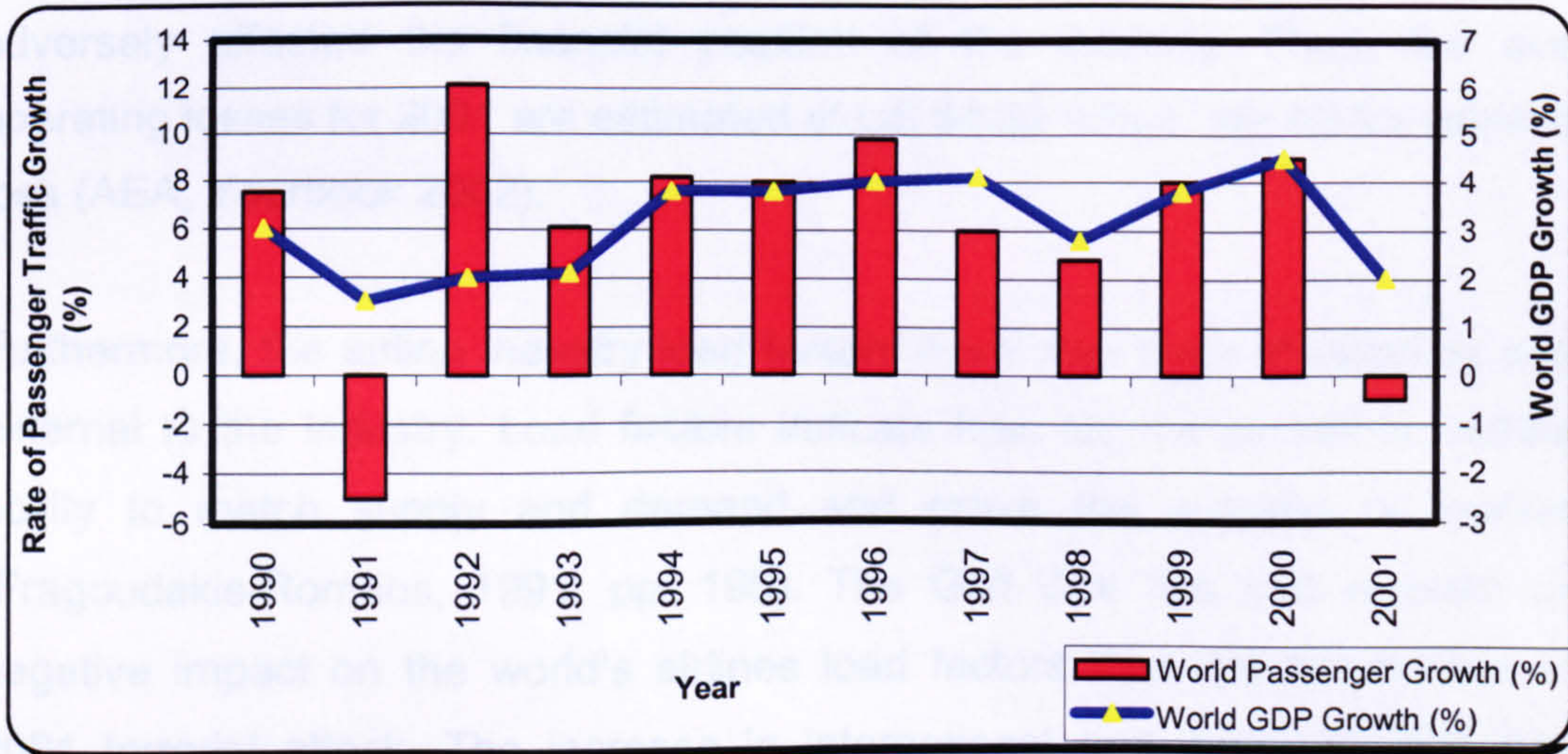


Figure 2.2 Correlation between Economic Growth and International Passenger Traffic, in 1990-2001 (International Civil Aviation (ICAO), Year 2002)

Figure 2.3 presents the operating results of the members of Association of European Airlines (AEA).

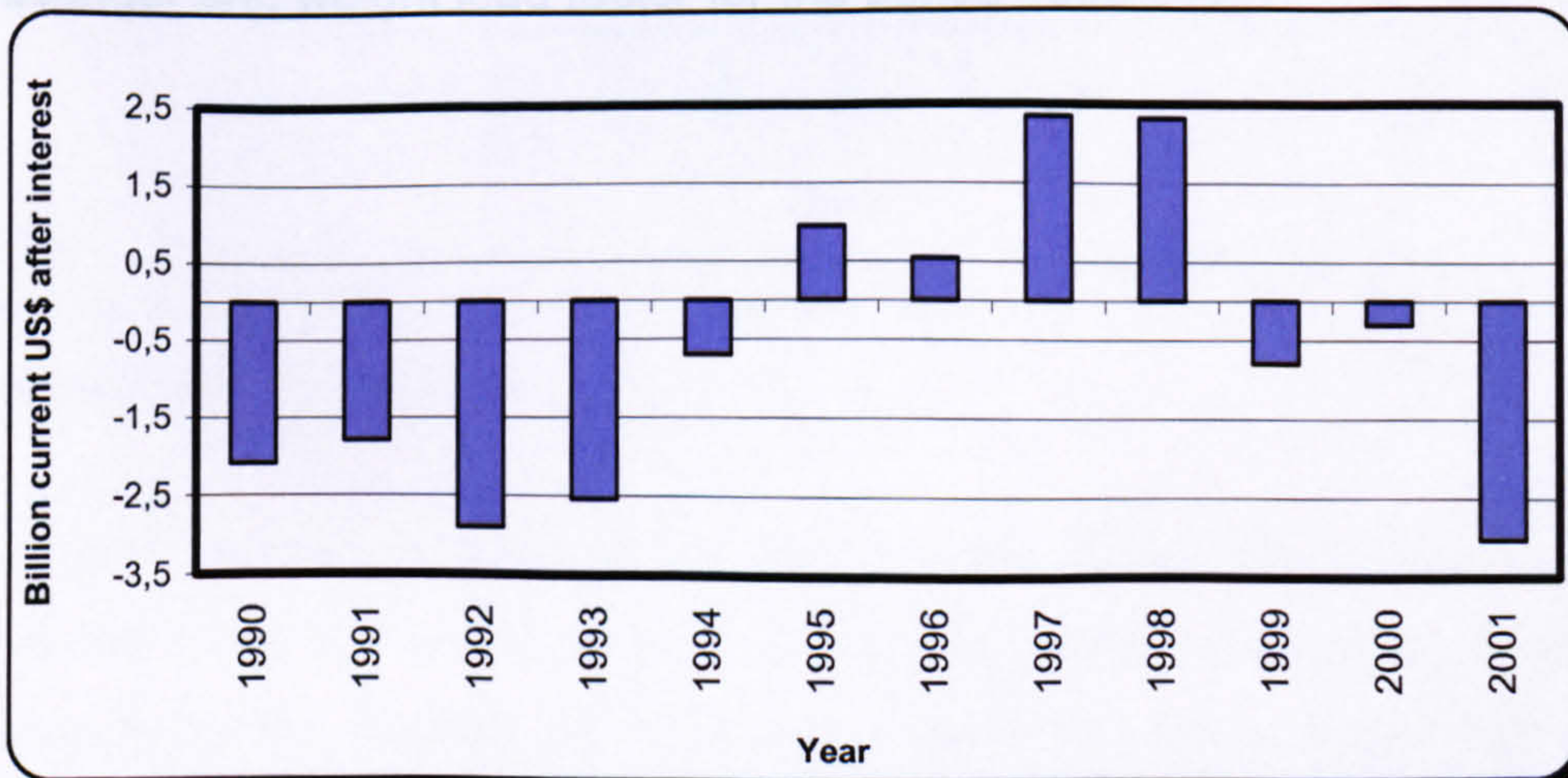


Figure 2.3 Operating Profit/Loss – Total Scheduled Routes (Association of European Airlines (AEA), Yearbook 2002)

Although the first Gulf war was the cause of the declining financial position of the airline industry, the downward trend had begun before 1991. The European airline industry suffered significant losses in the period 1990-1994. There was a recovery of the financial position in the period 1995-1998 but since 1999, airlines fortunes have faltered and the terrorist attack on 11th September further adversely affected the financial position of the industry. Thus, the overall operating losses for 2001 are estimated at US \$3.02 billion, the AEA's worst-ever loss (AEA, Yearbook 2002).

Furthermore, the airline industry load factors have also been affected by events external to the industry. Load factors indicate how full the aircraft is, reflecting ability to match supply and demand and prove the success of marketing (Fragoudakis-Romeos, 1991, pp. 195). The Gulf War has had a much more negative impact on the world's airlines load factors than the September 11th, 2001 terrorist attack. The increase in international and domestic load factors achieved by the airline industry, in 2000, can be partly explained by the fact that the carriers had significantly cut their capacity. Also, domestic load factors present more fluctuations than international which follow a more stable trend. Figures 2.4 and 2.5 show the evolution of the industry's international, domestic passenger and weight load factor for the period 1990-2001.

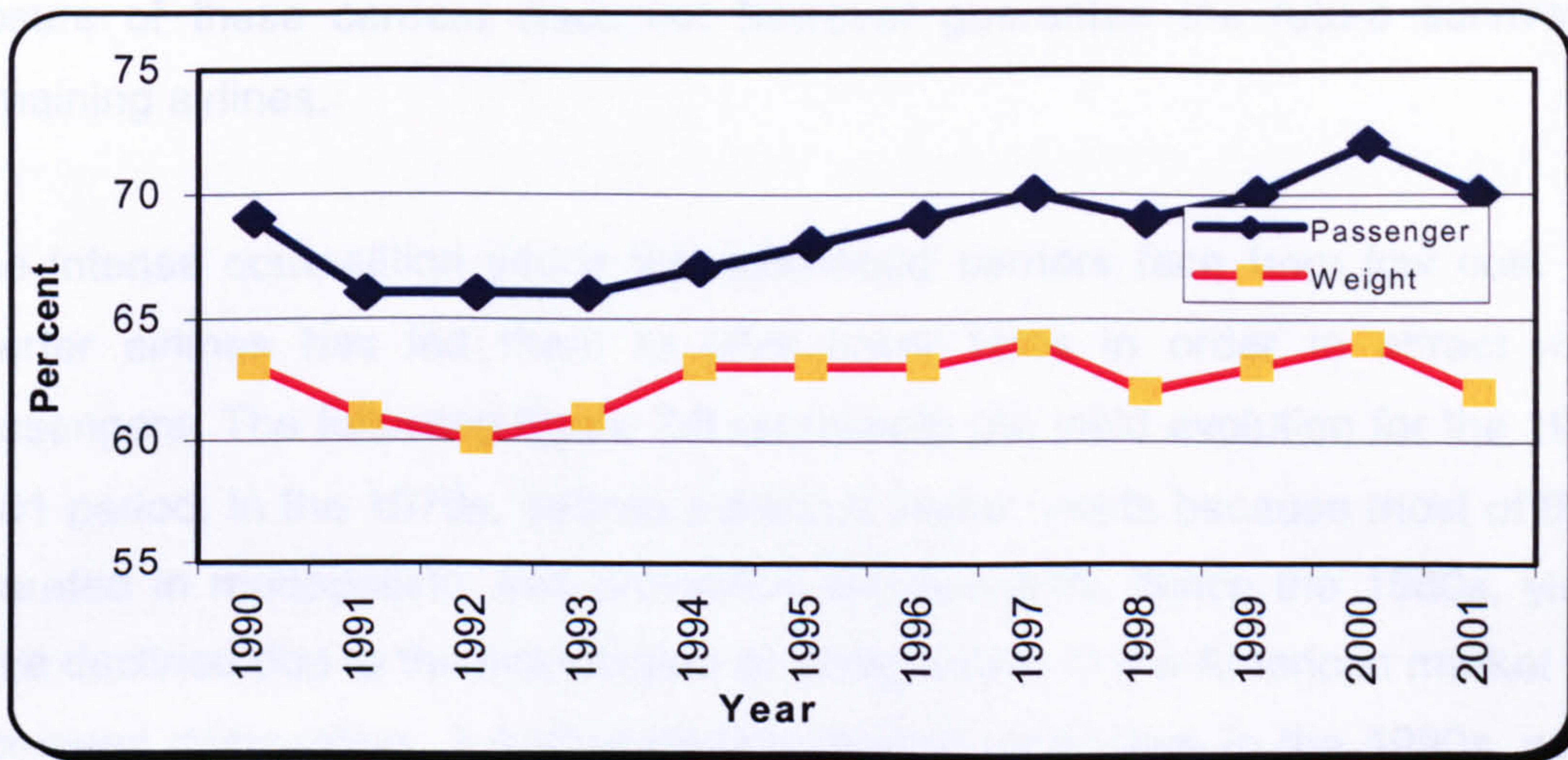


Figure 2.4 World International Load Factor Scheduled Services, in 1990-2001 (International Civil Aviation Organisation (ICAO), Year 2002)

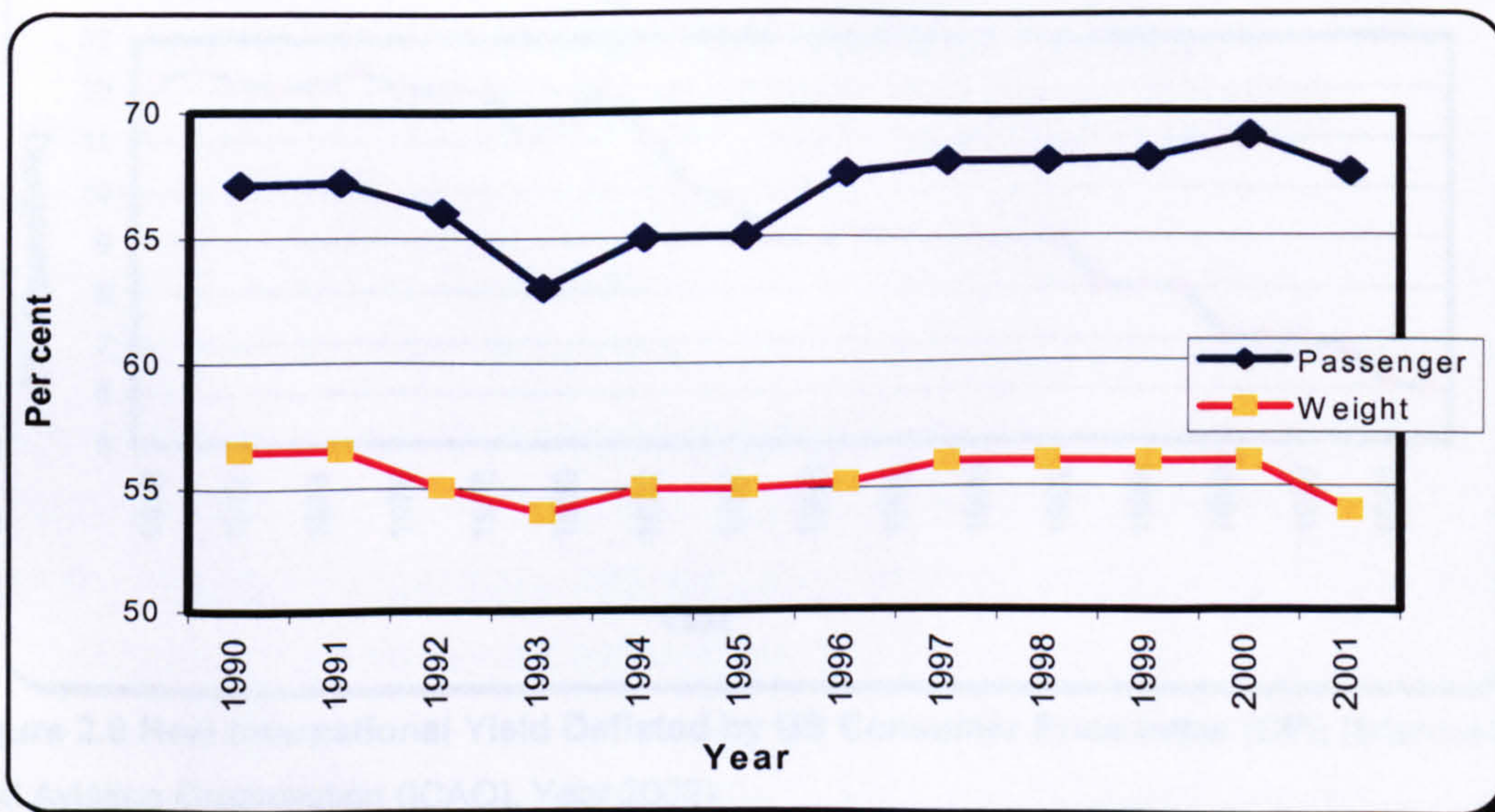


Figure 2.5 World Domestic Load Factor Scheduled Services, in 1990-2001 (International Civil Aviation Organisation (ICAO), Year 2002)

The poor financial position of the airline industry and the intense competition have led three European national airlines to cease operations. In early 2001 Balkan Bulgarian Airlines closed, after a troubled transition from State control to foreign ownership. Even more dramatic were the ceasing of operations of Sabena in late 2001 and Swissair in early 2002 (AEA, Yearbook 2002). The

closure of these carriers does not however guarantee the future survival of remaining airlines.

The intense competition which the scheduled carriers face from low cost and charter airlines has led them to offer lower fares in order to attract more passengers. The following figure 2.6 represents the yield evolution for the 1970-2001 period. In the 1970s, airlines achieved higher yields because most of them operated in monopolistic and protective environments. Since the 1980s, yields have declined due to the introduction of deregulation in the American market and increased competition. A further decline in yield took place in the 1990s, which can be explained by the more intense competition worldwide.

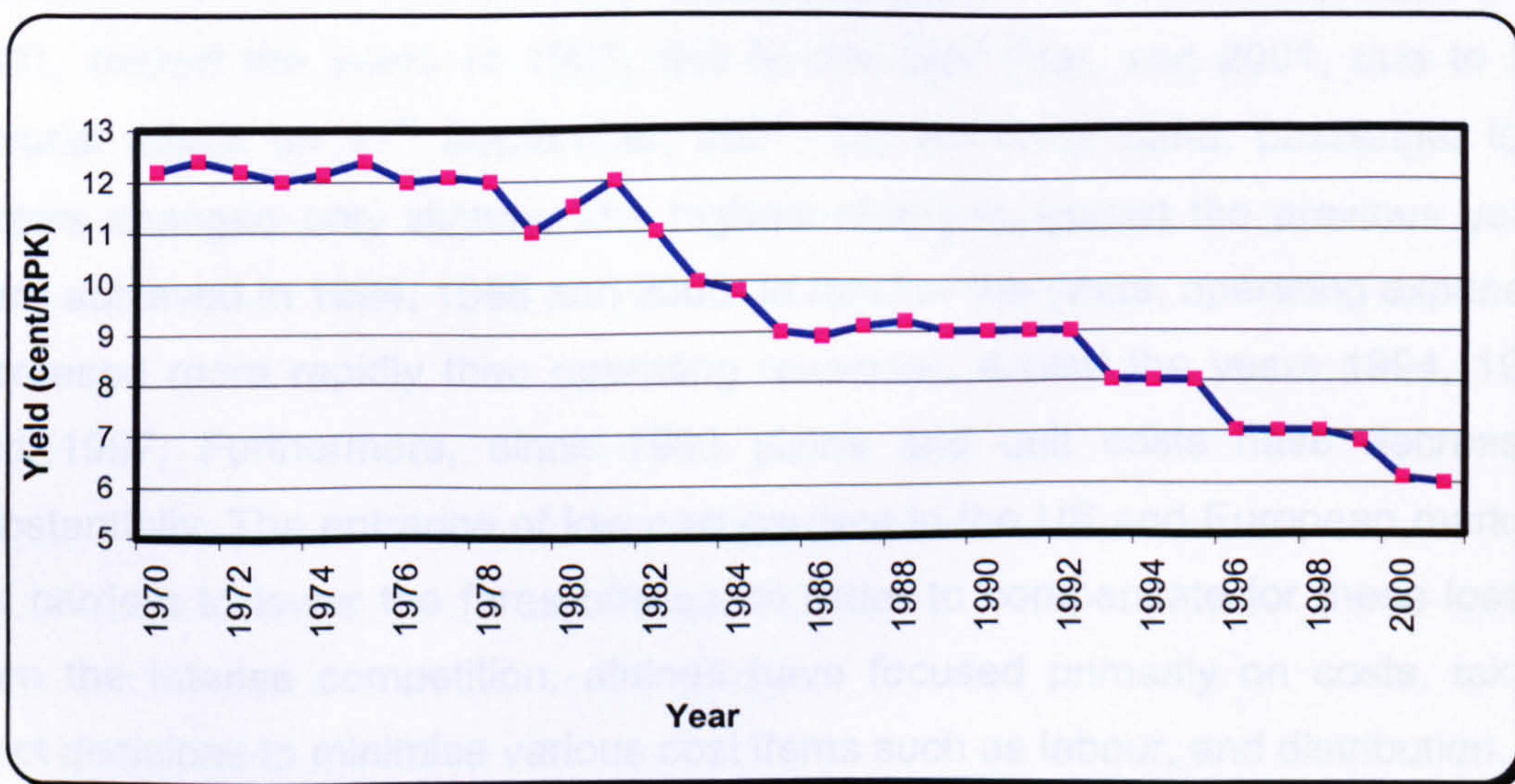


Figure 2.6 Real International Yield Deflated by US Consumer Price Index (CPI) (International Civil Aviation Organisation (ICAO), Year 2002)

The following table 2.1 presents the evolution of the airline’s industry various parameters in the period 1990-2001.

Table 2.1 The Evolution of the Airline Industry Various Parameters (% vs the previous year)

IATA Members	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Passengers Carried	6.9%	-4.2%	5.7%	1.3%	6.1%	3.9%	5.6%	6.7%	1.5%	3.9%	5.3%	-3.3%
Passenger LF %	-0.4	-1.3	0.4	-0.2	2.1	0.9	1.3	0.9	-0.6	0.4	1.9	-2.1
Operating Revenue	12.6%	0.8%	12.9%	-0.5%	7.1%	11.6%	5.7%	5.9%	-2.1%	3.1%	6.9%	-7.4%
Operating Expenses	18.2%	2.0%	13.2%	-1.1%	2.0%	8.7%	7.6%	4.5%	-0.8%	3.5%	6.9%	2.7%
Yield per RTK	6.3%	3.9%	1.9%	-7.3%	-3.1%	3.0%	-2.5%	-2.7%	-4.2%	-4.1%	-2.5%	-1.7%
Unit Cost per ATK	7.7%	5.2%	-0.1%	-6.2%	-4.3%	0.5%	-0.4%	-2.2%	-5.7%	-2.1%	-0.1%	3.4%

Source: IATA, WATS, 46th ed., 2002

Passengers carried by the International Air Transport Association (IATA) members increased - compared with previous years - for the whole period 1990-2001, except the years of 1991, due to the Gulf War, and 2001, due to the terrorist attack on 11th September, 2001. On the other hand, passenger load factors changed only slightly. The highest changes against the previous years were achieved in 1994, 1996 and 2000. In most of the years, operating expenses increased more rapidly than operating revenues, except the years 1994, 1995 and 1997. Furthermore, since 1993 yields and unit costs have decreased substantially. The entrance of low cost carriers in the US and European markets led carriers to lower the fares offered. In order to compensate for these losses from the intense competition, airlines have focused primarily on costs, taking strict decisions to minimise various cost items such as labour, and distribution.

External events dramatically influence the financial position of the airline industry. Moreover, competition has intensified worldwide mainly due to the entrance of low cost - low fare airlines to the air transport arena. Therefore, in order to respond to the competitive pressures and to achieve a competitive advantage, carriers need to plan a response to this attack.

Over the last few years all the carriers have concentrated on controlling their costs in order to survive. Cuts in labour costs can result mainly from minimising

the staff numbers. In addition, the increased use of information technology, in such areas as customer services, operational controls and yield management can assist airlines to lower their costs. Crew-costs decreased as the use of two-person cockpit crews became more frequent in the 1990s (Michalski, et al., 1993, pp. 15). However, there is struggle between management and labour interests. Thus, strikes can be a common phenomenon in the air transport industry, with bad results for airlines. The ten day pilots' strike in Air France in 1997, cost more than FFr1bn (\$167m) in lost revenue and the company's image was badly tarnished. The pressures of labour on airline management is high. Labour has demanded to be compensated for its sacrifices during the lean years of the early 1990s. Those sacrifices were very important for the industry during the downtime of the cycle (DiBenedetto, et al., 1998, pp. 25). According to Boeing (1998) increased productivity and improvements in operating costs are essential ingredients for carriers to survive and prosper in today's highly competitive market. However, the full service incumbent airlines are extremely conscious that their cost reduction strategies should not lead to a lowering of service quality. In recent years, therefore, airlines have concentrated their efforts on core-business activities, and outsourced non-core activities. Outsourcing offers an important means for reducing costs without lowering service quality. Costs are reduced because the outsourced, non-core activities can be undertaken by specialist firms who can, therefore do things cheaper. In addition, these firms often base themselves in countries where wages are much lower, adding to their ability to provide the services required much cheaper than airlines could do them internally (Doganis, 2001, pp. 119). Thus, in the era in which cost reduction is the main priority, airlines are becoming more open to outsourcing opportunities in all areas, from catering to ground handling to IT and call centres (Airline Business, January 2002, pp. 37).

Financial costs will play a vital role as airlines are forced to modernise and acquire new aeroplanes to meet the increased demand (Boeing, 1998). Also, financial resources are necessary for airlines in order for them to be able to offer

a differentiated product. According to Michalski, et al. (1993, pp. 15) the new aeroplanes need to be 40 per cent more fuel-efficient in 2009 than in 1989. Moreover, higher load factors, increased aeroplane utilisation, and increases in the average size should contribute significantly to boost efficiency. Thus, airlines will be able to operate with 37 per cent fewer aeroplanes in 2005, than if they had maintained 1990 load factors, utilisation and aircraft size.

As a result of their importance to airline profits and travel market generation, every carrier can be expected to be involved in a detailed examination of current and future airline costs and carriers will need to adapt quickly to the fast changing environmental conditions in order to survive, at least till the next crisis.

2.2 Trends in the Global Airline Industry during the 1990-2001 period

Peter Morris (2002) identifies the main characteristics of the airline industry during the period 1970-2001 as being:

- Static real revenues;
- Marginal profits in good years;
- Deregulation and continual target for regulators;
- A destruction of much of its capital;
- A downturn and terrorism in 2001.

He (Morris, 2002) goes on to state that the current challenges of the airline industry appear to be:

- ❶ Industry structure/ownership/regulation;
- ❷ Low cost business model;
- ❸ Product Distribution;
- ❹ Weak demand (especially corporate);
- ❺ Rising costs (security, fuel, insurance, etc.); and
- ❻ Profitability

Radical changes which reform the global economy, have an immediate impact on the air transport industry.

The following table 2.2 presents, in summary, the relationship between the economic and air transport trends.

Table 2.2 The relationship between Economic and Air Transport Trends

GLOBAL ECONOMICAL TRENDS	AIR TRANSPORT TRENDS
Liberal market	Liberalisation, Privatisation
Globalisation	Global Alliances, Mega Carriers, Multilateral Agreements (more than bilateral agreements)
Telecommunications/Information Technology	New distribution methods

Source: Fragoudakis-Romeos, 1991

In addition, the emphasis on minimising costs by all industries over the last few years is reflected in the airline industry by the appearance and the radical growth of the low cost low fare carriers.

These, and a number of key additional issues, are now discussed in more detail.

Liberalisation

In the 1980s, some countries followed the US domestic liberalisation of 1978. Thus, Canada, Great Britain, Australia and New Zealand have followed the case of US liberalisation and gradually implemented a liberal regime for their domestic aviation market. Moreover, the liberal bilateral agreements and the ‘free skies’ policies have affected the commercial relationships between countries. The degree of liberalisation and ‘free skies’ policies vary between geographical areas. In the countries of the Middle East, little change has taken place towards a more

liberal regime (Bowler, 1994, pp. 4). However, any remaining constraints are gradually being removed in almost all geographical areas around the world and a more liberal global regime has emerged.

The introduction of liberalisation has meant that freedom has been given to airlines to run their business. Thus, airlines have been able to: take business risks: with resultant rewards or losses; choose how to use resources – select their own markets, routes and frequency; and set fares (i.e. charge whatever they want). In addition, it has meant that anyone could start an airline. All these changes mean that success or failure is now in airlines' own hands, (Lobbenberg, 1992, pp. 4).

Privatisation

The global trend of privatisation has affected airlines and airports as well. There are various reasons why governments are not interested in keeping airline ownership anymore. Thus, privatisation is an indirect way that states use to avoid their participation in heavy cost fleet renewal, and a high cost low return industrial sector.

Privatisation has been implemented widely in the airline industry, particularly in the second half of the 1990s. In recent years, most of the airlines have been wholly or partly privatised. However, there are cases where privatisation has been postponed or cancelled, due to the unfavourable general economic climate or to the bad financial situation of a carrier. This has been the case for Olympic Airways. However, when the economic environment improves new attempts towards privatisation will start again for the non-privatised carriers (Doganis, 2001). This denationalisation and deregulation supported by governments has led to more intense competition between airlines (Doganis, 1991).

Global Alliances and Mega Carriers

The major carriers understand that they need to achieve on a global scale if they are to emerge as successful players in the global market (Airlines Business, May 2003, pp. 7). In the second half of the 1990s, the airline industry was characterised by the establishment of various kinds of alliances. This strategic movement for carriers to increase their size by forming alliances has been implemented successfully by the American carriers. This policy has led to a larger concentration in the American airline market. Moreover, carriers from other regions, particularly Europe, have followed the same strategic policy. These alliances have created global systems covering many geographical regions as a result of co-operation between big carriers from USA, Europe and Asia.

Currently, in the world airline industry there are four large groups of airlines (alliances), (Airline Business, July 2002, pp. 49), which are as follows:

- The oneworld group. Members of this group of airlines are: Aer Lingus, American Airlines, British Airways, Finnair, Iberia Airlines, LanChile and Qantas Airways. The oneworld alliance holds 14.5 per cent of the world share of revenue passenger kilometres (RPKs), 11.5 per cent of passengers travelled and 12 per cent of revenue in US dollars.
- The SkyTeam group. This group of airlines is made up of Aeromexico, Air France, Alitalia, CSA Czech Airlines, Delta Air Lines and Korean Air. This alliance holds 12 per cent of the world share of revenue passenger kilometres (RPKs), 12.8 per cent of passengers travelled and 10.5 per cent of revenue in US dollars.
- The Star Alliance group, consisting of Air Canada, Air New Zealand, ANA, Austrian, bmi British Midland, Lufthansa, Mexicana, SAS, Singapore Airlines, Thai Airways, United Airlines and Varig. This alliance holds 21.7 per cent of the world share of revenue passenger kilometres (RPKs), 17.2 per cent of passengers travelled and 20 per cent of revenue in US dollars.

- The Wings alliance, consisting of KLM and Northwest Airlines. This alliance holds 6 per cent of the world share of revenue passenger kilometres (RPKs), 4.3 per cent of passengers travelled and 4.5 per cent of revenue in US dollars.

These four groups together hold 54.2 per cent of world share of revenue passenger kilometres (RPKs), 45.8 per cent of passengers travelled and 47 per cent of revenue in US dollars¹ (Airline Business, July 2002, pp. 49).

Doganis (2001) stressed that in strategic alliances “*partners co-mingle their assets in order to pursue a single or joint set of business objectives*” (pp. 65). According to an Airline Business (July 2002) survey, the original reason behind the formation of groupings is the network coverage. The winner is the alliance that can get its passengers to the most destinations in the most alternative ways. However, alliances are also created in order to assist members to enhance revenues and to further cut their costs. It is estimated that an airline that participates in an alliance can achieve 15-20 per cent revenue growth per year. The majority of benefits come through codesharing and loyalty schemes, closely followed by feeder opportunities and joint sales in third markets (pp. 43). On the other hand, cost savings rise in line with the level of integration. It is estimated that a member airline may achieve an 11-12 per cent cost reduction at the stage of a merged structure (pp. 43).

Although the members of the alliances are based on different regions and operate under different regimes, they tend to shape into integrated systems. In the last few years, alliances have set up centralised management teams, consisting of representatives from all member carriers, responsible for co-ordinating action (Airline Business, July 2003, pp. 46). The strategic alliances play a vital role in long-term airline planning, including areas such as marketing, sales, product distribution, technical maintenance, and joint purchasing. In

¹ World Share based on ICAO traffic results and Top 150 airline group revenues.

addition, the joint approach to information technology allows partners to share information on customers and costs.

Before entering into an alliance, an airline needs to undertake extended market research in order to find out what the benefits are for participant carriers and the prospects of the partnership as a whole. Also, it is important that airlines find appropriate partners, i.e. those partners that have a similar organisational culture, offer a similar level of service, and so on. Thus, a carrier such as British Airways, with a high reputation should co-operate with those airlines that offer a high-quality, value-driven product.

Moreover, advanced forms of partnerships can take many forms, thus Sir C. Marshall, chairman of British Airways, predicted that in the future, airlines would be “*able to engage in a larger degree of employee exchange*” (H.B.R., 1995, pp. 111-112).

Figure 2.7 presents the evolution of different kinds of agreements between carriers. The majority of them are code-share (74.6 per cent) and marketing (19.5 per cent) agreements and were established in the 1997-2001 period.

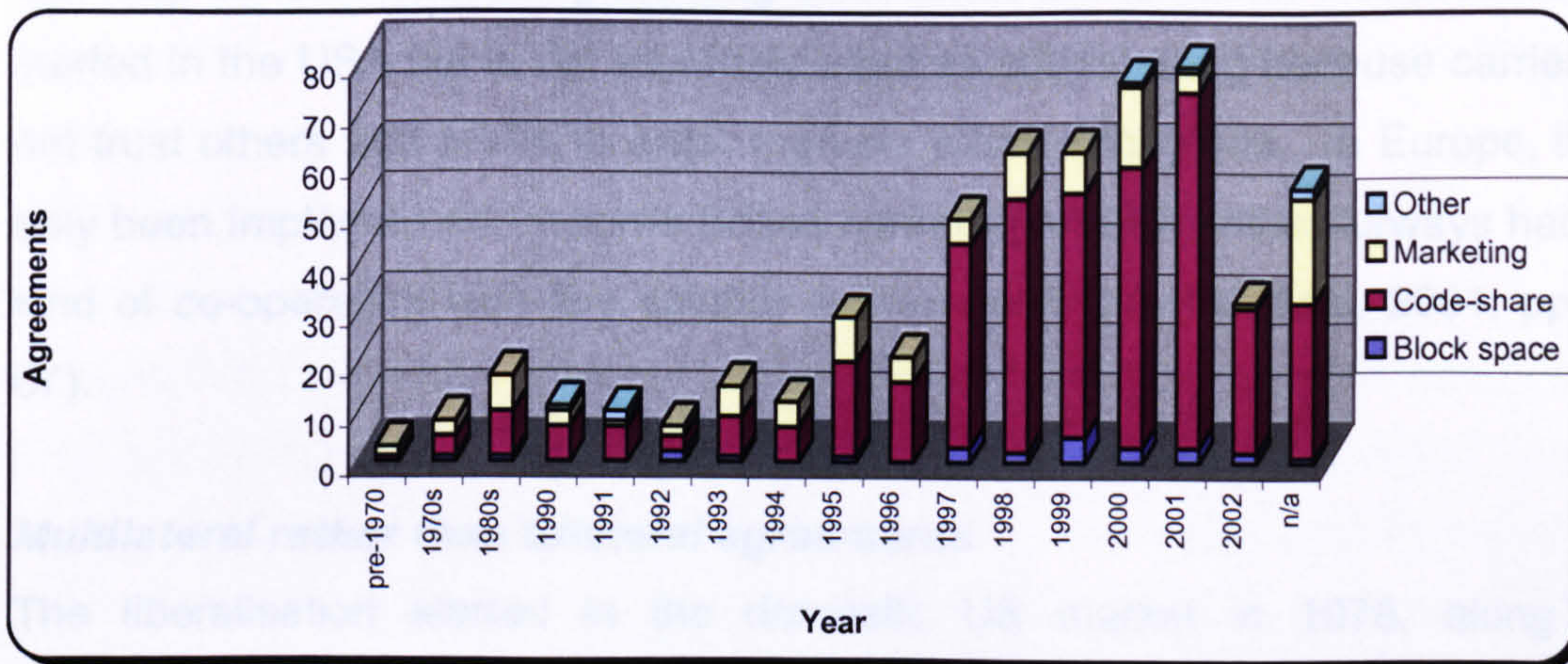


Figure 2.7 Alliance Survey 2002 – summary by type and start date (Airline Business, July 2002 – Airline Alliance Survey summary)

Note: The graph is based on analysis of the passenger alliance agreements currently in force among the 163 passenger airlines listed in the 2002 survey. 2001 includes co-operation which are agreed but not in force. n/a are deals with not date given.

There are two practices on which alliances are based, codesharing and franchising.

Codesharing is the agreement between carriers in which one carrier can use the flight code of the other carrier. Thus, passengers can travel from point A to point B with the aeroplane of the other carrier, and not just from the carrier with whom they bought their tickets. Two connecting flights of two different airlines can appear to be two flights of the same carrier, providing advantages for both carriers. These advantages are based on the way these flights are displayed in Computer Reservation Systems (CRSs) (Doganis, 2001, pp. 34-37). This practice started in the USA and is now widely implemented, as figure 2.7 shows.

Franchising is the practice, in which the bigger, stronger, more established carriers provide the right to another smaller carrier to use its product and its brand name. The goal of this agreement is for the bigger carrier to enter into the markets served by the smaller counterparts. Simultaneously, the smaller airlines

can reap benefits from using the long-established brand name. This practice also started in the USA but is not as widely used as codesharing because carriers do not trust others and prefer to enter markets alone if they can. In Europe, it has only been implemented by some British carriers (in 1997 British Airways had this kind of co-operation with five smaller regional airlines) (Doganis, 2001, pp. 65-67).

Multilateral rather than Bilateral agreements

The liberalisation started in the domestic US market in 1978, along with privatisation, alliances, coalitions, and equity exchange between various carriers have changed the structure of the airline industry. These changes require more liberal multilateral than bilateral agreements. The creation of a single European Common Aviation Area has been a major breakthrough (Doganis, 2001, pp. 44). The liberalisation in Asia, Africa and South America can be implemented under the auspices of regional economic groupings such as ASEAN in South East Asia and ECOSUR in South America (Doganis, 2001, pp. 11). On the other hand, US airlines achieve significant scale benefits operating in their domestic market, which is the world's largest single air transport market (Doganis, 2001, pp. 11). In addition, the US government has signed up a number of bilateral agreements with other countries. The creation of a Transatlantic Common Aviation Area (TCAA) between the US and the EU will bring together the US concept of 'open skies' and the European concept of an open market. The European Union's position on this was made clear by the Commissioner for Transport and Energy, Mrs de Palacio (de Palacio, 1999). The contribution of liberal market agreements is very important because they enforce competition and co-operation between airlines (Bowler, 1994, pp. 11).

New Distribution methods

Travel Distribution, that is, the way the consumer gets his/her ticket for boarding an aeroplane, has evolved over the last fifty years from a simple two-way transaction to a sophisticated trade-off between more than two parties. Thus, the

mere telephone call between a traveller and an airline has been replaced by a complicated electronic link among airlines, travel agents, corporations and consumers.

The development and the financial support from the airlines of Computer Reservation Systems (CRSs) and telecommunication has heavily contributed to the globalisation of the airline industry. These systems were, initially, implemented by a single company dealing with passenger bookings and then evolved to Global Distribution Systems. The first distribution systems (Sabre of American Airlines and Apollo of United Airlines) were developed in the USA, and created some fears due to non objective criteria and promotion of the system owners (carriers) routes and high charges for the third carriers. To avoid this, the US Department of Transport (DoT) and other international organisations set some measures which had to be implemented by CRSs in order to prohibit anti-competitive practices (screen display biases in favour of airlines-owners) by airlines and systems (Airline Business, March 2004, pp. 38). Thus, the European Commission, acting through the Council of Ministers, has passed various directives, regulations or codes of conduct both to ensure greater competition in areas where competition was previously limited and to ensure that competition is not distorted through unfair practices. The code of conduct for computer reservation systems is aimed at avoiding unfair practices (Council Regulations 3089/93 and 323/1999) (Doganis, 2001, pp. 42). European airlines set up two competing CRS systems in 1987, Galileo and Amadeus. British Airways, KLM, Swissair and Alitalia were the major shareholders in Galileo, though other airlines such as Olympic Airways hold smaller shares (Doganis 2001, pp. 78).

Today, in the USA, 15 per cent of airline operating costs account for travel distribution expenses while in Europe, the best managed airlines enjoy a similar percentage of around 17 per cent (AEA, Yearbook 2002, pp. 12). Worries about distribution costs having got out of hand and carriers losing their grip on the travel decision in favour of travel agents, have alerted airline executives to look

for new opportunities in travel distribution systems by taking advantage, time and again, of the exploding electronics industry.

The internet is increasingly seen as a catalyst for even more dramatic upheavals in the sales distribution system. Although the internet development seems to be slow for some airlines, and poses security problems with regard to payments, many airlines have based their marketing strategies on the internet (Doganis, 2001, pp. 178-179).

Today, most airlines seem to take advantage of the new technology. Special or restricted fares are the most common sales and, in this way, airlines are able to fill last minute unsold seats. Executives and frequent flyers are among the best customers. Travel kiosks, interactive TV sets and traditional CRS's are also useful tools for expanding sales by interfacing between the Internet and the traveller, e.g. Expedia, Orbitz, Travelocity, Travel Web. Low cost carriers have invested heavily in this direction in order to further minimise their costs. They sell more than 90 per cent of their tickets through the internet (e.g. Easyjet, Ryanair) (Doganis, 2001, pp. 178-179).

Costs have been further reduced by some carriers, particularly new low-cost carrier start-ups, through ticketless travel. Costing only around 10 per cent of the normal ticket costs, E-ticketing accounts for up to 60 per cent of total seat sales for some start-up low-cost carriers which are more prone to use it. It has had to confront the 'feel-good factor' that a traditional passenger enjoys holding a paper ticket in the hand, but has become increasingly popular among businessmen, executives and frequent flyers (AEA, Yearbook 2002, pp. 17).

One of the most important developments of the airline industry in the 1990s was the emergence of a new breed of low-cost low-fare airlines. Full service scheduled airlines can learn how to minimise their costs from the low cost carriers, without sacrificing the service they offer.

Low-cost low-fare airlines

There are two groups of low-cost airlines. First, no frills, start-ups, with low-costs and a fresh approach, such carriers are Southwest in the USA, Easyjet and Ryanair in Europe. Secondly, there are low-cost subsidiaries of major airlines' that have experience, industry knowledge and brand recognition to build on. Such carriers include Delta Express, Shuttle by United, Alitalia Team, and Go of British Airways (now part of Easyjet). The key risk faced by these low-cost subsidiaries is that of creating confusion, for passengers and damaging the established companies' brands. However, they can avoid these problems by offering a different product from those offered by the major company. Thus, they can operate on an underserved market, separate from that catered for by the major airline, as well as to different geographical regions, on a point-to-point basis or as a feeder to the major.

Aviation Strategy (July 2000) goes further than these two groups by producing a classification based on four different types:

- ❶ Type 1 – Subsidiaries of the Euro-majors;
- ❷ Type 2 – Low cost with high profile brand;
- ❸ Type 3 – Aggressively low cost;
- ❹ Type 4 – Mixed mode scheduled and charter operators.

Table 2.3 presents their main characteristics of the above types of low cost carriers.

Table 2.3	Low Cost Characteristics			
	Type 1	Type 2	Type 3	Type 4
	Go, Buzz, Virgin Express	Easyjet	Ryanair	Air Europa, Spanair
Use of secondary airports	Occasional	Some	Yes	No
Frequency of service	High, up to 6 Flights a day	High	Medium	Low
Advertising on aircraft	No	Own only	Yes	No
Related brands	Very important	Important	No	Yes
Average load factor	Relatively low 65%	Middle 70%	High 75%	Very high 80%
Average yield	Relatively high	Middle	Low	Middle
Unit cost	Relatively high	Low	Lowest	Middle

Source: Aviation Strategy, July 2000

Till the mid-1990s, airlines identified as ‘low cost’, such as Southwest Airlines or the former Valujet, had been operating in the US domestic market. These low cost carriers achieved much lower costs by introducing new operating practices and different service standards (Doganis, 2001, pp. 13-14). Since 1995, there has been substantial growth in these types of carriers in Europe. The recent economic results (2002) of low-cost carriers show that these airlines are at the top of world airlines in profitability terms, and they have also overcome the 11th September 2001 crisis without significant problems. Figure 2.8 presents the expansion of low cost carriers in terms of annual offered seats since 1995.

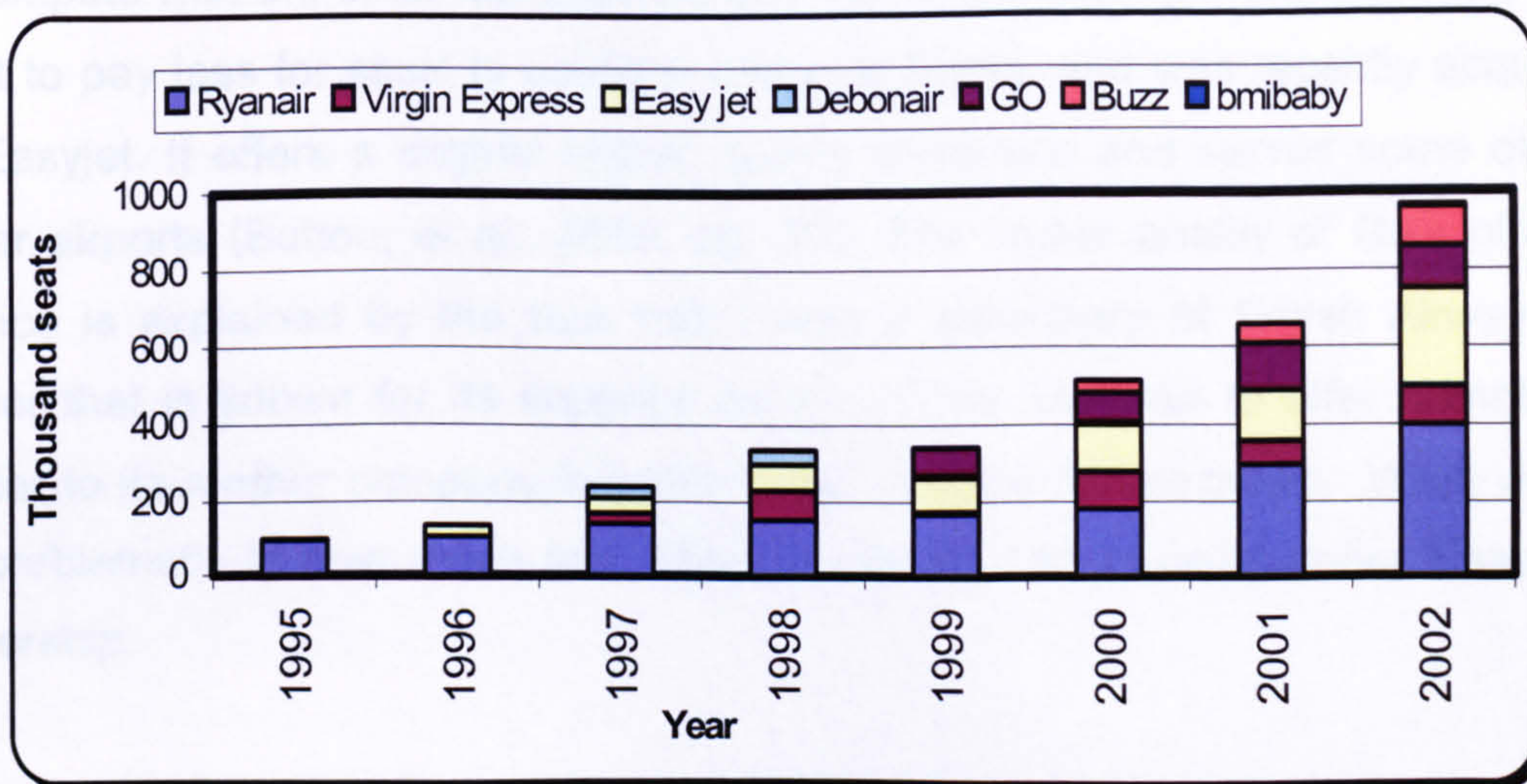


Figure 2.8 Growth of no-frill carriers (Association of European Airlines (AEA), Yearbook 2002)

The basic characteristics of the low cost carriers adopted by Southwest Airlines, have also been copied by many European 'no fills' carriers. Therefore, these airlines have fleet commonality and serve point-to-point traffic with fast turnaround times. They pay lower labour rates and they are generally highly productive. They cut distribution and marketing costs through direct sales and electronic ticketing. They offer a simple price structure and no frequent flyers programme (Aviation Strategy, July 2000, pp.7).

However, European 'no-frills' carriers (or low cost carriers to use the US jargon) have in many cases also adopted a different business model than Southwest. Ryanair launched services in 1995 and was the first low cost 'no frills' carrier in Europe. It offers low fare between secondary airports and its passengers have to pay for extras above the simple flight facilities. The carrier has adopted a consistent policy of flying to previously unknown airports often located some way (100 km-plus in some instances) from the centre of the nearest major town. It makes extensive use of the internet with 80 per cent of its bookings being made by online. On the other hand, Easyjet follows a different business model and does offer services to some of the larger European airports in competition with the full service scheduled airlines. 'Go' was initiated by British Airways, in order

to compete with the other low cost low fare carriers attracting those travellers that want to pay less for short to medium distance flights, and was recently acquired by Easyjet. It offers a slightly higher quality of service and serves some of the larger airports (Button, et al., 2002, pp. 27). The higher quality of Go's offered service is explained by the fact that it was a subsidiary of British Airways, a carrier that is known for its superior service. Thus 'Go' had to offer something similar to its mother company in order to not change parent brand. What would be problematic is how these two differing carriers can co-exist under Easyjet's ownership.

All airlines are competing in a battle of strategically chosen fare cuts. However, the effect of low-cost low-fare airlines to decreased average fares and to increase traffic is significant, thus according to the US Department of Transport (DoT) after the arrival of Southwest Airlines, "*average fares in six Providence markets have dropped by more than 30 per cent and have been maintained at the lower levels*". These type of carriers attract customers who had previously paid higher fares, even though its service requires two or three stops en route and various competitors offer single connection flights of shorter duration (Airline Business, February 1998, pp. 27). Furthermore, these carriers attract passengers who previously travelled on substitutes, mainly trains in Europe.

Since 2001 a number of other low cost carriers have been operating both in the UK and EU in general, such as bmibaby, (a subsidiary of British Midland), Air Scotland, Air Berlin, and Germanwings. Each one following the examples of operating mainly from secondary airports to European destinations and at the same time incorporating a number of the low cost carriers' models characteristics.

European low cost carriers have a greater cost advantage over most of the Euro-majors than Southwest Airlines does over the US majors (Aviation Strategy, July 2000, pp. 8). European low cost airlines are radically expanding, placing a larger

number of aircraft orders and taking over smaller airlines (Easyjet acquired Go and Deutsche BA). However, these airlines still have only 10 per cent of the total passenger numbers – possibly as little as 5 per cent if measured by scheduled Available Seat Kilometres (ASKs). If they maintain their 25 per cent annual growth rate, they will own around one-third of the market in 2010 (Flight International, 2002, pp. 33-36). On the other hand, Southwest Airlines expanded gradually with only one take-over but at the end of 2001 Southwest Airlines had 31,580 employees and its workforce has more than doubled since 1993. However, European low cost carriers through continuous expansion face the risk of losing their low cost advantages. As *“more complex networks, increase of labour and other input costs, managerial and industrial relations difficulties can drive these carriers to lose their low cost position and their simplicity that has made them successful”* (Button, et al., 2002, pp. 30).

The following figure 2.9 represents how costs are related to other parameters and how costs influence airline's product demand. Thus, businesses with lower costs have an important advantage over their counterparts, because these firms have the ability to offer lower prices, with the result to increase the demand of their products, to increase their revenues, and finally to improve their profitability.

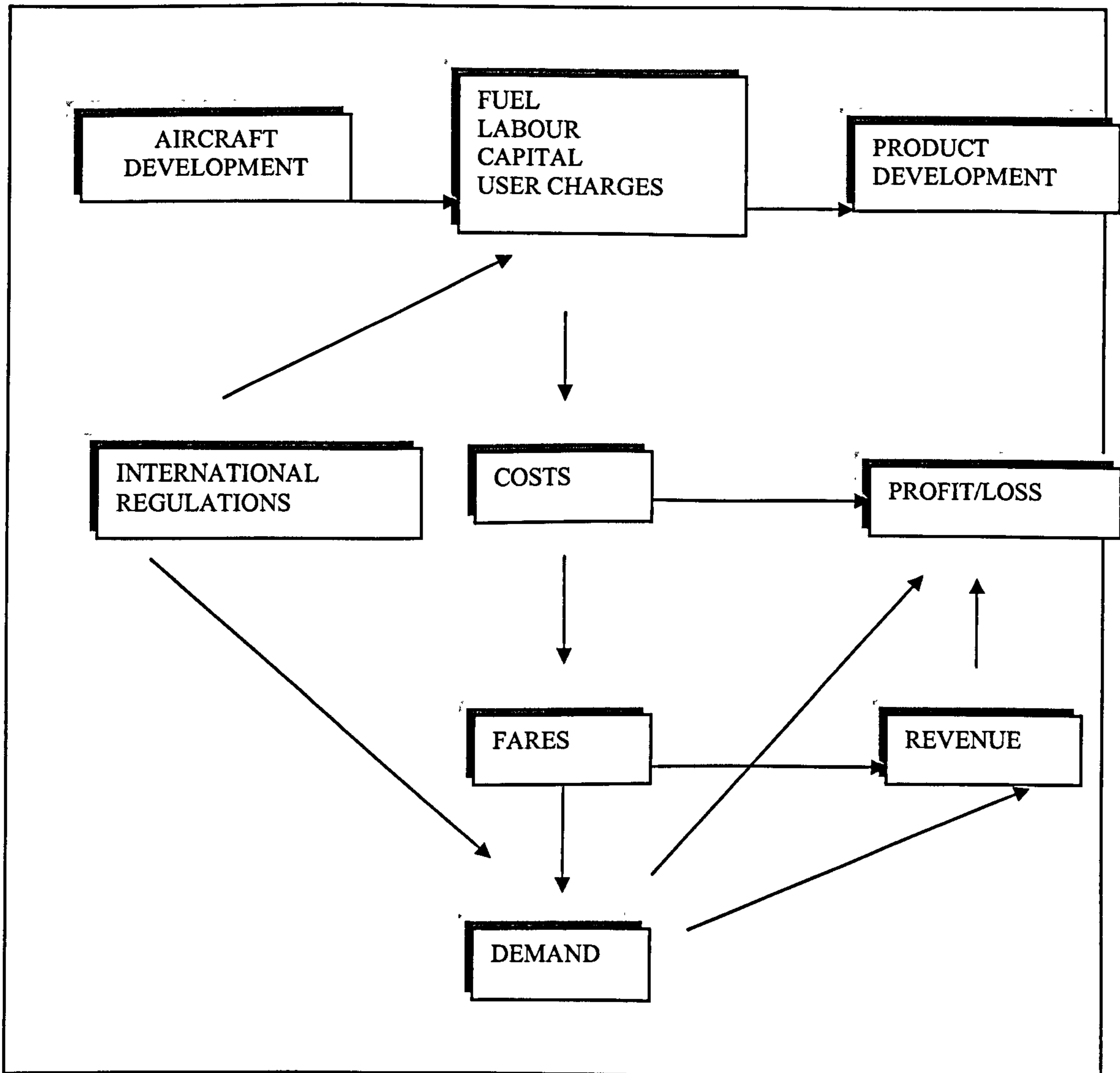


Figure 2.9 How costs influence demand (composed by author)

Tae Oum (1998) supports the premise that airlines can achieve cost competitiveness either by having lower cost of the production inputs - labour, fuel, capital and materials, including the effect of exchange rates on these or

through the 'productive efficiency' with which these inputs are deployed (Flint, Air Transport World, 2/1998, pp. 59). The combination of them is the ideal case. Full service incumbent carriers can lower their costs through more efficient use of their inputs (labour, fuel, etc.)

The basic lesson that European full service scheduled airlines could learn from the low cost carriers is the way that they manage to keep costs under strict control. As the time for the airline industry is more difficult some of the low cost carriers practices have been adopted by scheduled counterparts. However, fare simplicity, quick aircraft turnarounds, simple organisational structure, a single aircraft fleet type are some practices that full service scheduled carriers can adopt. On the other hand, some other practices such as no offered food and refreshments on board or to operate from the secondary airports cannot be adopted by scheduled airlines. The full service incumbent carriers should place extra care when trying to minimise their costs, as there is a risk of losing the high level services offered, which are their main advantage over their lower cost counterparts.

Airlines with lower costs have the privilege of offering lower fares than those carriers which have higher costs. They try to minimise their costs in order to offer lower prices and to increase their customer base. The appropriate price level must be set, that gives good value to the customer and adequate revenue to firms.

2.3 Market and product characteristics of the airline industry

In the air transport industry, as with other industries, supply of and demand for air services are not independent of each other. Therefore, aircraft types and speeds, departure and arrival times, frequency of service, air fares, in-flight service, the quality of ground handling and other features of supply, influence demand for an airline's services. Also, the demand itself affects those supply features. The

density of passenger demand, its seasonality, the purpose of travel, the distance to be travelled, the nature of the freight demand and other demand aspects should influence supply and will impact on costs. As the market becomes more competitive and unregulated, the more dynamic the interaction becomes and the greater the problems are that the airline management must solve. Marketing, therefore, plays an important role as it is concerned with this dynamic and interactive process of matching supply and demand (Doganis, 1991, pp. 202).

Airlines must manipulate their products in order to better serve their customers and therefore achieve significant competitive advantage over their competitors.

A number of authors identify that it is very important to understand how six key factors have driven the airline business (Bowler, 1994; Dempsey, et al., 1997; and Doganis, 2001)

- Airlines generate a very 'soft' brand loyalty – this means that many customers have a preferred carrier, but they will switch to another carrier in order to save a few dollars or for a slight difference in service.
- Supply and demand are never expected to be in balance. There will always be a significant unsold inventory of seats, and that inventory becomes instantly perishable after an aeroplane departs.
- The marginal cost of selling unused capacity is minimal – and thus there is almost no 'floor' on the degree of discounting.
- The market is fragmented into tens of thousands of city pairs – and any route that is a primary and therefore fully-costed route for one airline is simultaneously only an incidental by-product for several other carriers and ripe for aggressive discounting.
- Perhaps unique to the airline business, computer reservation systems (CRSs) provide complete and instantaneous price and service information – probably more so than in any other business. This intensifies competition even further since any price change is immediately known to all customers and competitors. The extensive use of internet sales by airlines further enforces competition.

- Great emphasis has been placed on lowering costs, either by adopting some of the low cost carriers practices or by participating in alliances.

Although airlines' products look almost the same, marketers should exploit the above factors, in order to offer an attractive, differentiated product. The airline product includes how the customer finds out about the offered service, the time when the passenger calls the reservation department to find a seat, then the airport facilities, check-in, in-flight service, baggage receiving and follow-up (complaints), all these create total customer satisfaction, and make up the total flight experience (Doganis, 1991, pp. 33). Customer satisfaction should be kept high in order for airlines to achieve high customer retention. Moreover, all the airline 'product chain' consists of sources for differentiation and they should exploit them by offering a customer oriented product.

Price is a significant factor as the overall market, including the business segment, becomes more price-sensitive. Global economy recessions and the airline industry downturn since 2001 have proved that companies tend to limit travel budgets and business travellers try to take advantage of discounted fares and tariffs originally designed for the leisure market. However, it is not only the cheap fares that can attract passengers, there are some other factors that may be more important than price as bases for differentiation by airlines. Figure 2.10 represents the significance of these other factors that influence passengers demand. Punctuality, safety, convenient schedules and frequent flyers programmes (FFPs) are the major concerns of air travellers. In addition, other elements such as in flight service, lower prices, on the ground services, catering on board and so on, can make the difference and should not be ignored by carriers.

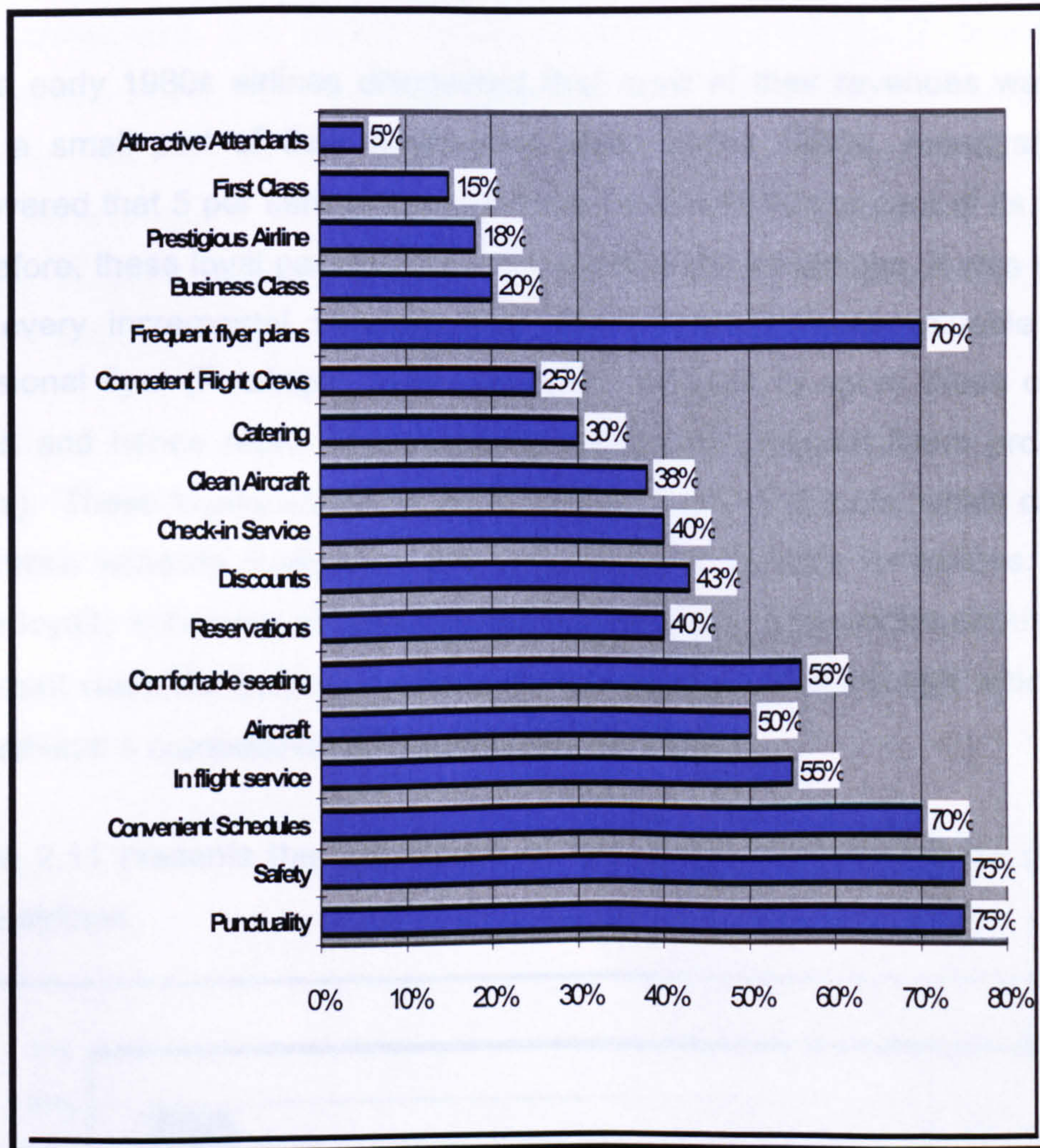


Figure 2.10 Choosing an Airline...the Travellers perspective (Intramarc Image Survey – Airline Executive Magazine, December 2001)

However, customer needs and priorities are continuously changing and carriers try to identify and monitor them. Thus, according to IATA, a recent on-line survey (2002), found that after the September 2001 events the majority of travellers (50 per cent in November 2001 survey) required more ground and on-board security. A real understanding of customer needs is very important in order to offer the right product. This product must be the one that customers really want so that

they choose this product over others that competitors offer. Therefore, a continuous marketing input is necessary.

In the early 1980s airlines discovered that most of their revenues was coming from a small part of their customers base. In the 1980s, American Airlines discovered that 5 per cent of its customers produced 40 per cent of its business. Therefore, these loyal passengers were worth more for airlines. It was estimated that every incremental frequent flyer was 10 times more valuable than an occasional flyer (Petzinger, 1995, pp. 139). In order to serve these customers better, and hence retain them, carriers introduced frequent flyers programmes (FFPs). These loyalty schemes are important marketing tools, which can attract and retain valuable customers, providing revenue benefits for airlines. Also, via these loyalty schemes, airlines can collect significant information about this very important customer base and offer a personalised service through which airlines can achieve a competitive differentiation advantage.

Figure 2.11 presents the importance of frequent flyers programmes (FFPs) for some airlines.

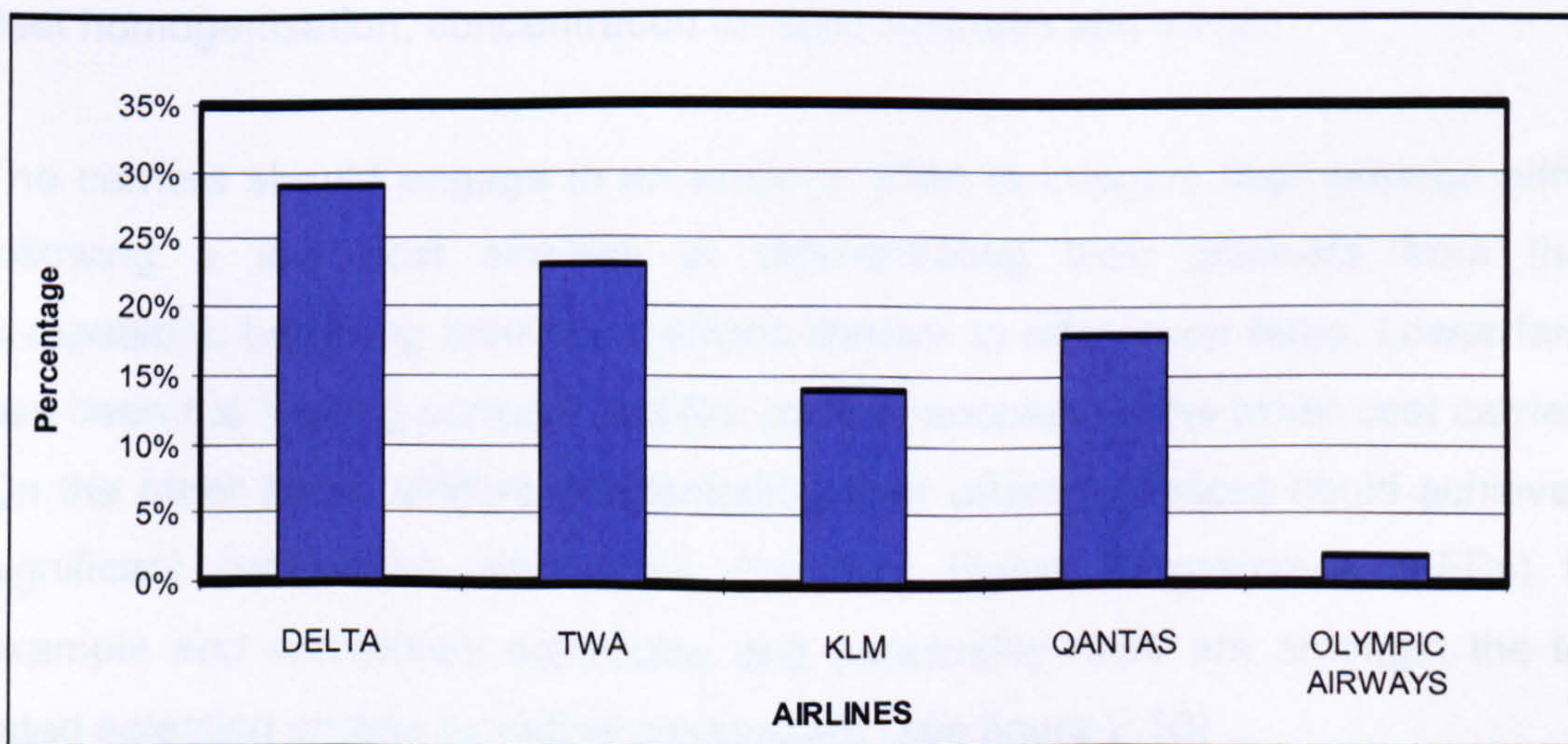


Figure 2.11 Frequent Flyers Programmes (FFPs) Importance (IATA Transatlantic Air Passenger Survey (T.A.P.S.) – October-December 1996)

The exploitation of cross-marketing opportunities, i.e. co-operation of airlines with other companies, can make the miles even more attractive providing new revenue streams for airlines. Thus, airlines can co-operate with other airlines that are members of the same alliance, car rental companies, hotels, banks, supermarkets, etc., to increase their customer base. Customers benefit in a number of ways, including frequent travellers being able to earn miles without actually travelling (A.E.A., 1995, pp. 13).

Conclusively, the global economical and political situation has affected the airline industry both in terms of traffic and financial results, as shown in figures 2.1, 2.2, 2.3, 2.4, 2.5 and 2.6. The first Gulf war and the September 11th 2001 terrorist attack have dramatically influenced the position of the airline industry. The increased liberalisation of the global air transport environment has pressed carriers to find other ways in order to survive. Privatisation and participation in the global alliances provide significant benefits to carriers and an opportunity to become more competitive. The low cost operating model can be partly followed by full service incumbent carriers, adopting a more extended use of the internet, fleet homogenisation, concentration on core business and so on.

The carriers should engage in an endless effort to improve their position either following a low cost strategy or differentiating their products from their competitors. Lowering their costs allows carriers to offer lower fares. Lower fares has been the leading concept and the base of success of the lower cost carriers. On the other hand, airlines differentiating their offered services could achieve a significant competitive advantage. Frequent Flyers Programmes (FFPs) for example and convenient schedules and punctuality rates are amongst the top rated selection criteria by airline passengers (see figure 2.10)

Furthermore, airlines should have a detailed knowledge of their customers' needs, using various marketing tools towards this end, in order to offer a product

Chapter 2 – The Airline's Industry Environment

that satisfies them, better than competitors do. Thus, monitoring current and potential competitors is necessary in order to offer something different and better.

Chapter 3

Olympic Airways

3.1 Olympic Airways Profile

Olympic Airways dates back to 1957 when Greek shipping magnate Aristotle Onassis purchased the state-owned TAE-Greek National Airlines, itself only founded in 1951 through a merger of TAE Hellas and Aero Metafora Ellados.

In 1971, a subsidiary, Olympic Aviation, was formed for managing short-haul, light aircraft and overhaul operations. In 1972, Olympic Airways' scheduled services were extended to the Far East and Australia. Onassis withdrew in 1974 following heavy losses and the airline was grounded pending re-organisation. The Greek Government bought the airline's shares in 1975 and operations resumed in January 1976 but continued to require government subsidy. In 1990, the carrier inaugurated the Athens-Bangkok-Tokyo service. In 1991, Olympic Airways established its subsidiary 'Galileo Hellas' that provides the carrier's advanced Computer Reservations System (CRS) services. In 1992, Olympic Aviation started to operate autonomously from Olympic Airways and the new subsidiary, Macedonian Airlines, was established to serve charter passenger traffic.

While Olympic Airways frequently made an operating profit, the servicing of its large debt mountain meant that it was pushed into a spiral of annual losses (Doganis, 2001, pp. 188-189). Olympic Airways posted net losses every year from 1978 to 1994. The carrier's financial position was improved in the mid 1990s as a result of a restructuring programme begun in 1994 and involving 'state aid' of US\$2.3 billion. Prior to the 1995 write off under the agreed state aid package, the carrier had long term debts of over US\$2 billion.

In 1994, the first restructuring plan¹ was implemented (R. 2271/1994). The fundamental requirements of this plan were financial restructuring, cost reduction, primarily through reduced staff numbers, and higher labour productivity, a revised and probably slimmed down route network, accompanied by fleet rationalisation. However, some of the restructuring plan requisites were not implemented, for example the Tokyo route closed, but the carrier extended its network to Eastern European destinations. The carrier's costs declined through the postponement of fleet expansion, the two Airbus A300-B4s were returned to the leasing company in 1994. Furthermore, labour costs declined through the early retirement of 1,050 staff and wage levels were frozen for 1994 and 1995.

In 1996, Olympic Airways established a secondary hub in Thessaloniki, serving various European destinations, in co-operation with its subsidiary Olympic Aviation, which operated these routes. However, the carrier faced new financial problems.

In 1998, a new restructuring plan (R. 2602/1998) was implemented. Again some of the requirements of this plan were not adopted. Thus, an efficient Management Information System (MIS) was not developed, and the government intervention in the carrier's management was continued.

Following the 1998 restructuring plan an audit by the Commission found that the 1998 restructuring plan had not been put in place, that none of the financial objectives had been met and the viability of the company was not assured in the short or medium term. Olympic Airways had lacked equity since 1999 and remained very much in debt (Commissions Press Room, 11/12/2002). This led to the Commission's decision (11 Dec. 2002) to penalise Olympic Airways for not achieving the objectives of the second restructuring plan (R. 2602/1998).

In June 1999, Speedwing, the consultancy subsidiary of British Airways, signed a contract worth US\$8.85m to manage Olympic Airways for 30 months.

¹ Restructuring Plan: An agreement between the Greek state and EU regarding the re-organisation of Olympic Airways.

Speedwing's brief was to turn around the loss-making carrier and prepare it for possible privatisation. However, Speedwing's contract was terminated in May 2000 after British Airways declined to take up its option to acquire a 20 per cent stake. In August 2000, the privatisation process continued with the appointment of accountancy firm Pricewaterhouse Cooper to audit Olympic Airways finances and carry out 'due diligence'. However, with the airline's accumulated debt, thought to be around US\$105 million, privatisation at this point seemed unlikely. To compound matters, the European Commission barred further state-aid, meaning the future of Olympic Airways remained uncertain. In the years 2001 and 2002 two further privatisation efforts took place but were not successful. Clearly, Olympic Airways was in a bad financial position for the examined period 1990-2001. The carrier had the opportunity to improve its financial and market position through the two restructuring plans but this did not come about.

The main domestic competitor of Olympic Airways is Aegean Airlines. This was initially set up in 1992 as Aegean Aviation, and was the first private Greek carrier to be issued with an operator's license. In 1999, following a capital injection from a number of Greek entrepreneurs, Aegean Airlines entered the scheduled domestic market on four trunk routes with two Avro RJ100s. It positioned itself to offer a high quality service with two classes of service on all scheduled routes, superior aircraft interiors (all leather seats), and fares that mainly matched those of Olympic Airways. In late 1999, Aegean Airlines took over Air Greece when Minoan Lines² joined Aegean's shareholders by increasing the latter's capital base with Air Greece's shares as well as introducing new equity (Aegean Airlines, 2000).

Doganis (2001) lists the main characteristics of the state owned carriers, and particularly Olympic Airways, as: a) the occurrence of substantial losses, b) the existence of an overpoliticised structure, c) the existence of strong labour unions, d) overstaffed and low labour productivity, e) no clear development strategy, f) bureaucratic management and e) poor service quality.

² Minoan Lines: a passenger shipping company

The major problem for all state owned carriers and particularly for Olympic Airways is the continuous government intervention. In return for providing direct or indirect support, such as guarantees for loans to acquire aeroplanes or to cover annual deficits, governments and taxpayers expect to be able to exert influence on the management of the airline. In order to achieve this, the government changes the airline's management frequently and often without apparent reason. Olympic Airways' powerful unions also interfere in airline management. Traditionally, union power has been used to resist change, unless the employees received some financial compensation. Thus, early in 1996, Olympic Airways' union leaders resisted the introduction of sleeper seats in business class on the carrier's long-haul B747s even though this was an essential part of a strategy to improve the product. Moreover, a consequence of being overpoliticised and over-unionised is that Olympic Airways was overstaffed. However, following the introduction of the two restructuring plans in 1994 and 1998 the number of staff employed had been radically decreased. This can be seen from table 3.1, which gives the number of employees for the 1990-2001 period.

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Cabin	1,420	1,343	1,285	1,268	1,224	1,006	1,001	952	850	820	1,066	954
Cockpit	145	138	133	116	100	96	90	102	78	72	74	11
Pilots	497	457	420	417	416	401	395	429	419	481	485	470
Maintenance	2,369	2,205	2,127	2,094	2,058	1,870	1,750	1,654	1,473	1,334	1,488	1,115
Ticketing	3,872	2,635	2,522	2,361	2,493	2,286	1,766	2,060	1,857	1,732	1,420	1,090
Handling	1,825	2,789	2,445	2,451	2,455	2,095	1,953	1,628	1,344	1,377	1,129	2,556
Other employees	1,778	1,862	1,929	2,047	1,602	1,386	1,670	1,402	1,335	1,214	995	918
Total Employees	11,906	11,429	10,861	10,754	10,348	9,140	8,625	8,227	7,356	7,030	6,657	7,114

Source: International Air Transport Association (IATA), WATS 46th ed., 2002

Another characteristic of the 'distressed carriers' – carriers with financial problems for consecutive years - such as Olympic Airways, is the lack of a clear and explicit development strategy. The government and union interference contributes to this. In addition, having too many different aircraft types, bureaucratic and overcentralised management and poor service quality both in

the air and on the ground are the main symptoms of “*distressed state airline syndrome*” (Doganis, 2001, pp. 188-193).

Olympic Airways passenger traffic is characterised by its high seasonality. The majority of the carrier’s passengers travel for tourism and visiting friends and relatives (VFR). This traffic is low yield and has travel specific time periods usually the summer months, Christmas and Easter. This requires specific care in designing the carrier’s schedule. Figure 3.1 illustrates the seasonality of Olympic Airways international and domestic passenger traffic (average 1990-2001). On average, the carrier serves more than 42 per cent of its total passengers (both domestic and international) between June and September. The reason for this is that the carrier has focused on these passengers.

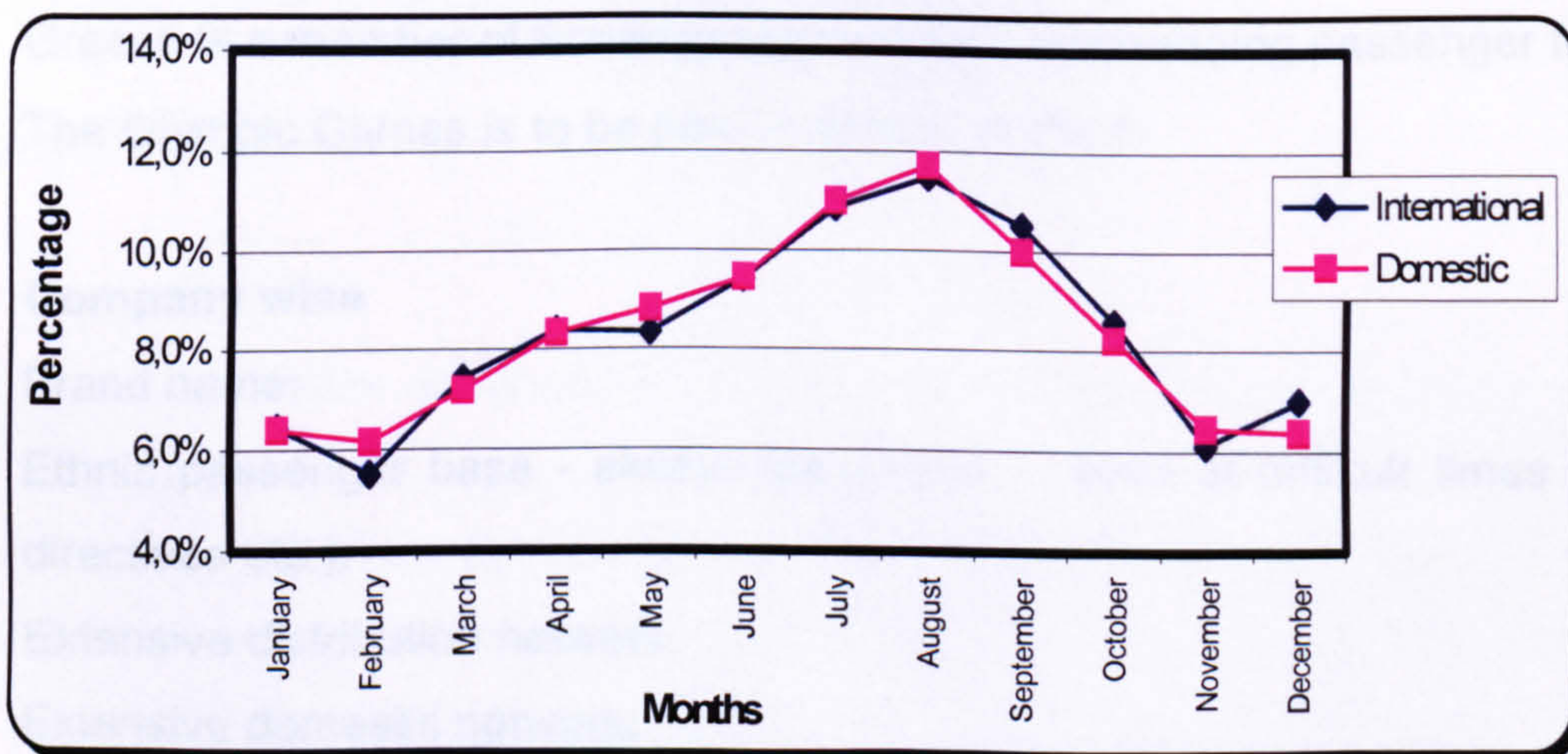


Figure 3.1 Olympic Airways Passengers Traffic Seasonality (aver. 1990-2001) (Olympic Airways, Network Analysis Sub-division)

High seasonality and focus on low yield passengers are crucial problems for Olympic Airways that have important implications for its financial and market position.

At a more detailed level, the main strengths and weaknesses of Olympic Airways are presented below. The analysis and presentation is based on information and

data from Avmark International³ (Avmark International Ltd., December 1993) and the Olympic Airways 1998-2002 Business Plan (Olympic Airways, Business Plan 1998-2002).

STRENGTHS

1. Country wise

- Established as the carrier of Greece;
- Leisure destination;
- Strategic position, at the lower end of S. E. Europe, ideal for traffic flows North-South and vice versa and East-West and vice versa;
- Lower labour costs compared to the other countries;
- Greece is a member of Schengen agreement, encouraging passenger traffic;
- The Olympic Games is to be held in Athens in 2004.

2. Company wise

- Brand name;
- Ethnic passenger base - always supportive - even at difficult times (travel directives etc.);
- Extensive distribution network;
- Extensive domestic network;
- Extensive international network (four continents after the recent pause of operation of Australian routes);
- Peaceful relationships between management and labour unions, particularly in the last few years;
- Development of Athens as a hub;
- Well positioned slots in most major destinations due to long existence in the industry;
- Excellent safety record reputation;

³ Avmark International is an aviation consultancy company

- High standards of crew training;
- High maintenance standards;
- High quality of in-flight catering;
- New long haul aeroplanes (Airbus A340-300);
- Impending aircraft interior refurbishment;
- Impending total product renewal;
- Impending upgraded use of yield management.

3. Airport wise

- Inauguration of Athens International Airport in 2001, a new base for Olympic Airways operations, and the newest airport at the lower end of the European Union.

WEAKNESSES

1. Country wise

- A purely leisure destination-not allowing for extensive exploitation of high yield traffic;
- Visa requirements for passengers from third countries. This is in direct contrast to other European countries that have been exempted from this requirement providing their airlines with a competitive advantage against Olympic Airways.

2. Company wise

- Ethnic market, while it provided Olympic Airways with a secured – clientele base to lean on, even during difficult periods, at the same time, it led to over reliance on this market segment, resulting in heavy dependence on specific distribution channels, a steady low-fare pricing policy and neglect in penetrating other market segments. This is mostly for the long haul markets;
- Continuous erosion of market share in Greek B.S.P. since 1994;
- Unsatisfactory punctuality and regularity of schedules;

- Lack of accurate and on time statistical data;
- Lack of an efficient Management Information System (MIS);
- Inconsistent use of yield management;
- Old fleet;
- Low interline traffic;
- Lack of fleet commonality;
- Lack of clear organisational procedures;
- Lack of consistency of product and service, in flight and on the ground;
- Lack of advertising and promotional campaigns;
- Unmotivated and fatigued personnel, due to continuous management changes, and rumors concerning Olympic Airways future;
- Lack of internal communication;
- Absence from a major alliance scheme;
- Well established, fast reacting, superior product offered by competitors in most European, N. Atlantic and Far East markets.

3. Airport wise

- Until 2001, Hellinikon, Athens' West Air Terminal was a major constraint for Olympic Airways operations. For a long time that its size and facilities had been inadequate for both point to point and transiting traffic. It contributed greatly to delays and poor services.

3.2 Olympic Airways Performance

Passengers yield, load factors, market share and financial performance are used in order to measure the performance of the examined airline. Monitoring these performance measures useful conclusions can be extracted about the carrier's marketing and financial success. Improving the carrier's yield, load factors particularly for off season period, market share and its financial position Olympic Airways can achieve viability.

1. Passengers Yield

Yields depict the average revenue produced per passenger-km or tonne-km carried. Doganis (1985) stressed that yields in conjunction with the achieved load factor and the costs determine whether an airline's financial targets are met (pp.102).

In recent years, yields have followed a steady declining trend. The liberalisation and the intense competition led carriers to offer more capacity and reduced or discounted fares in order to fill their aeroplanes. Thus, within Europe 71 per cent of the total traffic travels at these low fares. Fortunately, the decline in real yields has, in many cases, been matched by falling unit costs. This is possible due to the introduction of new-generation wide-bodied aircraft and by the great efforts made by carriers to control their costs. Furthermore, the fall of the real price of aviation fuel has helped airlines towards costs minimisation. However, in cases where average yields have fallen faster than unit costs, airlines are under great pressure to increase load factors to compensate for the lower yields (Doganis, 2001, pp. 9-10).

Figure 3.2 presents the yield evolution of Olympic Airways, AEA average, TAP (Air Portugal) and British Airways. This figure proves that Olympic Airways achieved lower yields than British Airways, AEA average and TAP (Air Portugal) for almost all the examined years. Also, figure 3.2 shows that yields follow a declining trend for all. It is clear that since 1992, and due to liberalisation in the European air transport industry, yields have declined except of the period 1994-1995. In this period yields increased significantly due to the fact that this was the beginning of a prosperous period for the industry and the carriers tried to accommodate the increased demand charging in many cases higher fares and following a better yield management policies because both of them are easier to be adopted in good times for the industry (as section 2.1 presents). However, since 1996 intense competition has led to further decline in yields. As far as

Olympic Airways is concerned, this downward trend has continued due to the intensification of competition and to the entrance of new Greek carriers. However, AEA yields have declined more than those of Olympic Airways. Olympic Airways, in order to outperform these new entrants, offered a number of promotional fares, which led to Olympic Airways lower yields. The extensive use of promotional fares by the Greek new entrants to face Olympic Airways discount fares and fierce competition led most of them to cease operations (AXON Airlines, Air Greece, etc.).

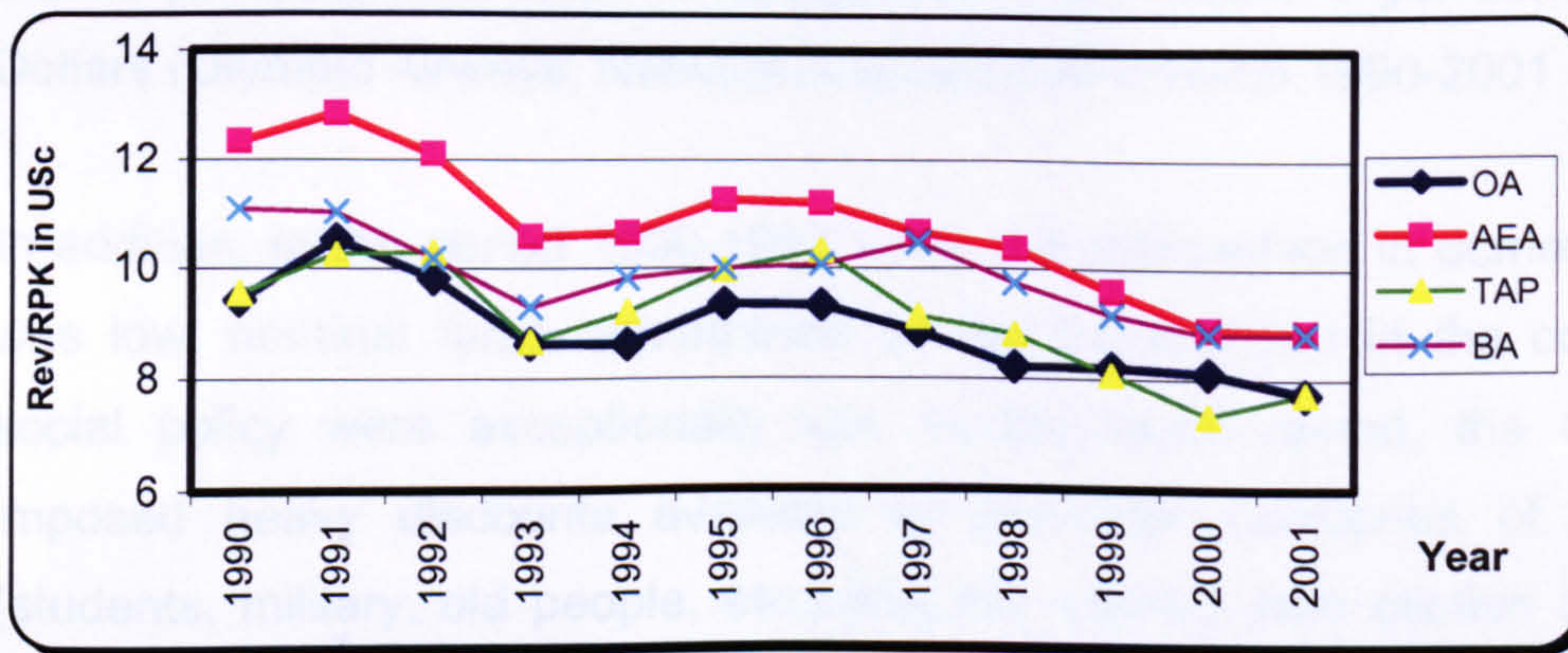


Figure 3.2 Pass. Yield (Rev/RPK) in USc Evolution for 1990-2001 (Association of European Airlines (AEA), Year 2001, RB8 data)

Figure 3.2 proves that Olympic Airways is a low yield airline. This is explained by the fact that Olympic Airways is the national carrier of Greece, not a highly industrialised country, nor located in the business heart of Europe. In contrast Olympic Airways main competitors are located in more industrialised countries than Greece. In addition, the main passenger traffic to/from Greece is leisure traffic and as a result Olympic Airways also has to compete with charter operators. The low yields can also be explained by the fact that Olympic Airways, especially at the beginning of the examined period 1990-1995, offered a huge number of promotional fares on international services. Thus, on long haul routes, Olympic Airways offered much lower fares than its competitors, though the carrier served these markets with a direct service, while its competitors offered flights via their strong hubs (Australian market). Olympic Airways offered

these lower fares, as a part of its social policy, in order to serve the Greek community, who live in these countries.

Low yields are also a product of the fact that Olympic Airways operates out of a soft currency country (the Greek Drachma compared to the USD and the other currencies, 1 USD=300 Greek Drachmas and 1 UK pound=520 Greek Drachmas in 1999 before the adoption of EURO). Thirty per cent of its international sales come from Greece for the examined 1990-2001 period and of the 70 per cent from sales in foreign countries, most (70 per cent) are in US Dollars (Olympic Airways, Network Analysis Sub-division 1990-2001 data).

In addition, in the period 1990-1997 when the competition in domestic network was low, nominal fares, determined by the Government in the context of its social policy were exceptionally low. In the same period, the Government imposed heavy discounts available to particular categories of passengers (students, military, old people, etc.) and this caused yield dilution on domestic services. Since 1998, the intense competition on domestic services has further lowered the carrier's yield. On the other hand, in the last few years, the lack of 'direct intervention' by the Greek Government in the management of Olympic Airways has led them to adopt more efficient yield practices.

Moreover, Olympic Airways operates shorter average stage length routes than its competitors and for this reason its yield are expected to be higher than its competitors because yields are usually higher for shorter distance flights. Olympic Airways average distance per flight was 582 km and AEA average was 1,109 km in 1991, and Olympic Airways was 1,134 km and AEA average 1,247 km in 2001. Also, the average distance per flown passenger was 1,255 km for Olympic Airways and 1,892 km for AEA in 1991, and in 2001 was 1,645 km for Olympic Airways and was 1,969 km for AEA (AEA, 2001, RB8 data). However,

Olympic Airways can improve its yield and requires further market research, product planning, quality of services offered, marketing and firm yield management (Fragoudakis-Romeos, 1991, pp. 202).

2. Load Factors

Load factors are the percentage of capacity actually sold over total capacity produced. A key aim for airlines is to improve their services by following more efficient strategies in order to increase their load factors but it is inevitable that they are affected by various exogenous factors over which airlines have little or no control (such as the Gulf War at the beginning of 1990s, or the terrorist attack on 11th September, 2001).

Figure 3.3 depicts Olympic Airways international and domestic passengers load factors for the 1990-2001 period. Domestic load factors are much higher than international, except in the years 2000 and 2001. The increased competition from other Greek domestic carriers (Aegean, Cronus, Axon) lowered Olympic Airways domestic load factors for the years 2000 and 2001. The high load factors in domestic operations are explained by high traffic density and low fares, which are the result of a consistent company policy aiming to 'fill the aircraft'. Olympic Airways aeroplanes carry mostly package tour and, generally, low yield traffic. However, even the domestic load factors followed a downward trend, decreasing by 19.9 points from 76.6 per cent in 1990 to 56.7 per cent in 2001.

The introduction of new entrants into the domestic market in the years 1993 (VENUS), 1994 (Cronus) and 1995 (Apollo) also pushed Olympic Airways domestic load factors down. Since 1998, the introduction of Aegean Airlines, Axon and Air Greece has had a large negative impact on the carrier's domestic load factors.

International and domestic load factors decreased at the beginning of the 1990s due to the first Gulf War and the introduced liberalisation. Since 1998, the intensification of competition internationally and domestically has pushed load factors even lower. The replacement of the Boeing B-747 with the lower capacity Airbus A340-300 contributed to the improvement in international load factors for the period 2000-2001 as shown in figure 3.3. However, international load factors were identical in 1990 and 2001, at 64.6 per cent, showing only small fluctuations during the examined period.

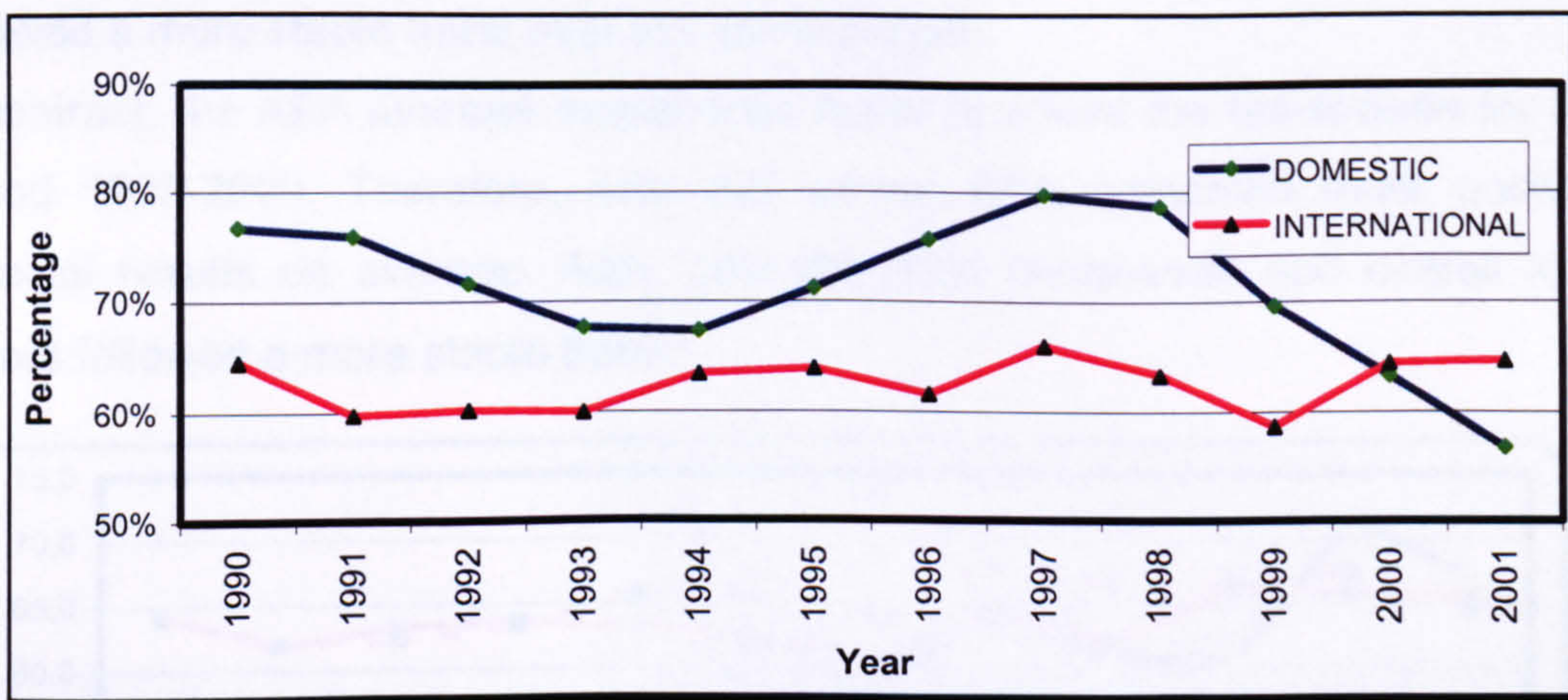


Figure 3.3 Olympic Airways Load Factors, in 1990-2001* (Olympic Airways, Network Analysis Sub-division)

*Passengers load factors calculated on offered seats/passengers traveled basis

A comparison between overall and break-even load factors achieved can provide more accurate conclusions. Overall load factors represent how much of the offered tonne capacity is used by passengers, freight and mail. Break-even load factors are the minimum load factors required in order to ensure that operating revenues cover operating costs. Figure 3.4 presents Olympic Airways and Association of European Airlines (AEA) overall and break-even load factors for the period 1990-2001. It is clear that the AEA average break even and overall load factors are well above Olympic Airways.

Given that Olympic Airways operating costs are far lower than of the AEA average, Olympic Airways achieved lower break-even load factors than the AEA

average. Moreover, the overall weight load factors Olympic Airways achieved are below the carrier's break-even load factors for all the 1990-2001 period. Therefore, the carrier did not achieve those overall load factors that cover the operating costs for the carrier. The best performance for Olympic Airways was achieved in 1995, when its overall load factor exceeded break-even load factor by 2.3 points. On the other hand, the worst year was 1999, when its overall load factor was 14.3 points lower than the break-even load factor. This was the result of a continuous increase in operating costs (depicted in the upward trend of the carrier's break-even load factors). On the other hand, the load factors achieved followed a more stable trend over the same period.

In contrast, the AEA average overall load factor is above the break-even for the period 1993-2000. Therefore, over this period AEA presented more positive financial results on average. Also, both the AEA break-even and overall load factors followed a more stable trend.

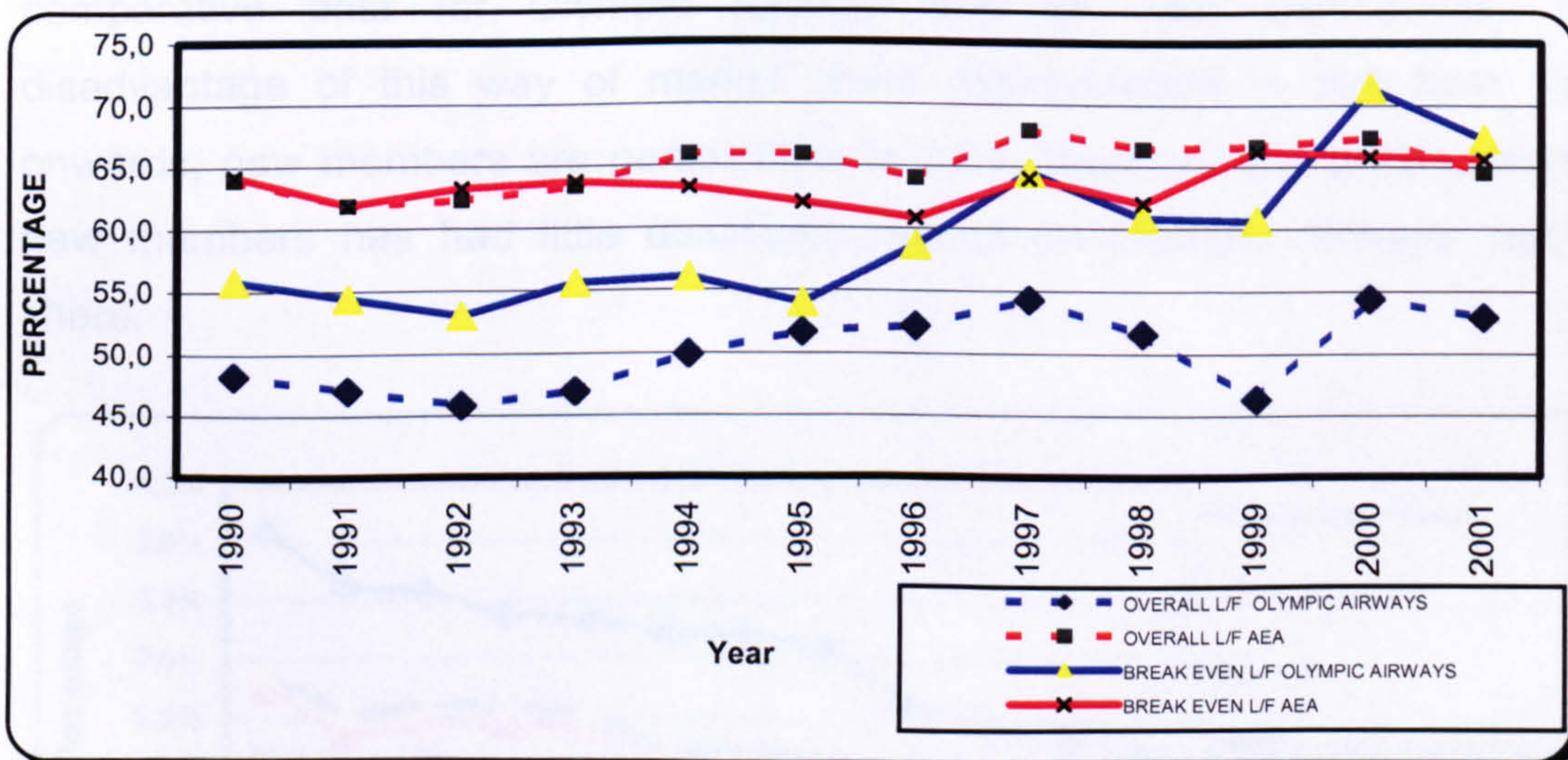


Figure 3.4 Olympic Airways and AEA Overall and Break Even Load Factors* (Association of European Airlines (AEA), Year 2001, RB8 data)

*Overall load factors calculated on revenue tone kilometres/available tone kilometres.

Although, Olympic Airways has a cost advantage over its European competitors having lower break-even load factors, the carrier did not manage to exceed its break-even load factors. Consequently it is necessary for the carrier to improve its load factors above the break-even load factors, in order to achieve financial viability. In addition, the carrier should increase its passengers traffic for those months where there is overcapacity (see figure 3.1).

3. Market Share

Passenger numbers, revenues in US\$, operating Revenues Passengers Kilometres (RPKs) and Available Seat Kilometres (ASKs) market share are used in order to measure Olympic Airways' performance against its European competitors and members of the AEA. These parameters used because they provide a very clear and full picture of the market share and there are available comparative data for Olympic Airways and for AEA participants. The disadvantage of this way of market share measurement is that from 1990 onwards, new members are participating in AEA. However, the participation of new members has had little downward impact on Olympic Airways' market share.

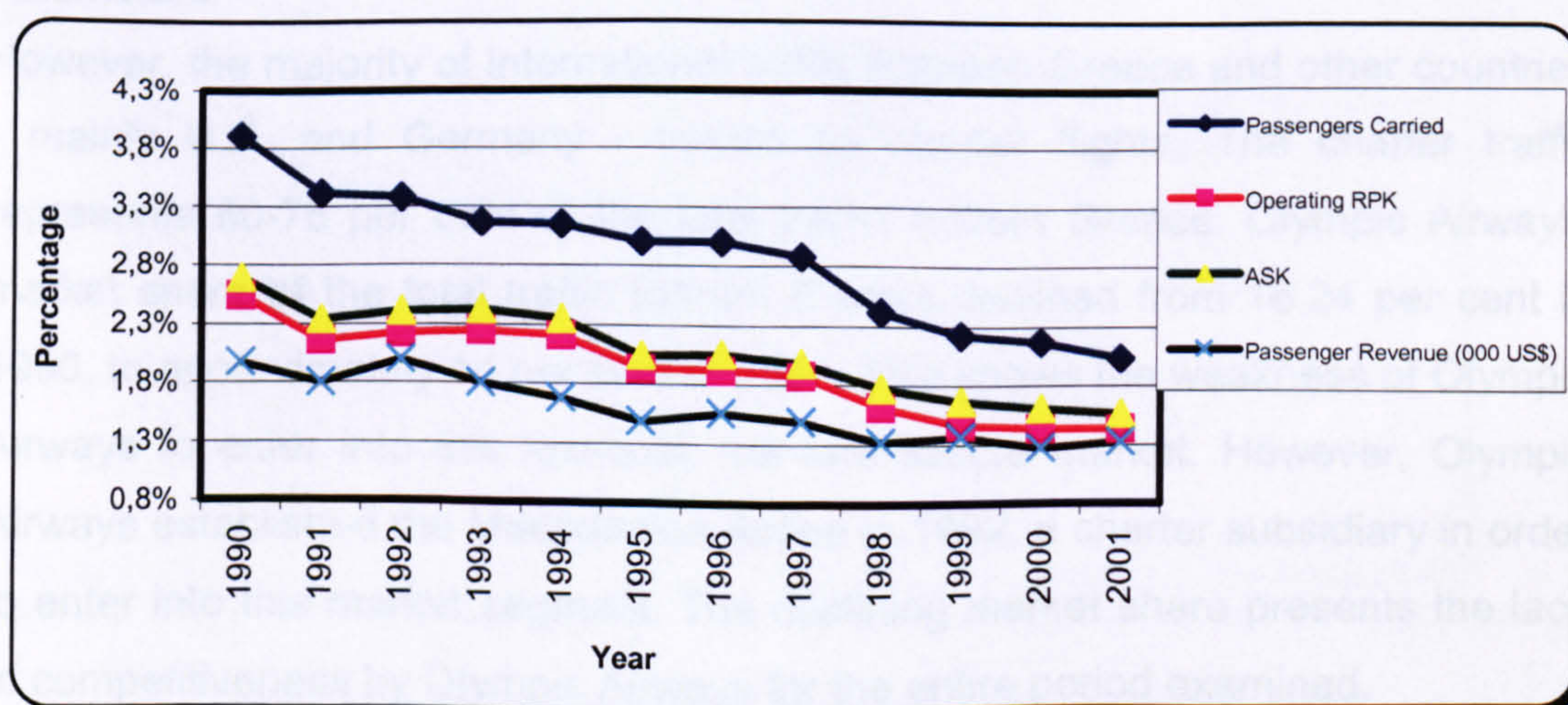


Figure 3.5 Olympic Airways Market Shares for 1990-2001 and for the international network (Association of European Airlines (AEA), Year 2001, RB8 data)

Figure 3.5 clearly depicts the declining trend in Olympic Airways market share for passenger numbers. In the first half of the examined period the carrier was served more international destinations and this affect positively all the above examined parameters of Olympic Airways compared with the AEA averages. Since 1997, Olympic Airways share has been declining dramatically due to the intense competition. Thus, the Olympic Airways scheduled passengers market share decreased from 3.9 per cent in 1990 to 2.0 per cent in 2001.

As far as Olympic Airways revenue is concerned, figure 3.5 illustrates that Olympic Airways passenger revenues share in AEA total passenger revenues has also declined, but not like passenger figures. Thus, revenues in US\$ and in current prices declined from 2.0 per cent in 1990 to 1.3 per cent in 2001 while passenger figures declined from almost 4 per cent to only 2 per cent.

The operating Revenues Passengers Kilometres (RPKs) and Available Seat Kilometres (ASKs) of Olympic Airways also followed a declining trend (see figure 3.5). Both remained stable in the 1991-1994 and 1995-1997 periods. The 1994 decline is explained by the cessation of operation of the Tokyo flights. Since 1997, the increased of competition in international markets and the cessation of operation of some international destinations were negatively affected these parameters.

However, the majority of international traffic between Greece and other countries - mainly U.K. and Germany - travels by charter flights. The charter traffic represents 60-75 per cent of the total traffic to/from Greece. Olympic Airways' market share of the total traffic to/from Greece declined from 16.24 per cent in 1990, to approximately 14 per cent in 2001. This shows the weakness of Olympic Airways to enter into this low-cost, low-fare leisure market. However, Olympic Airways established the Macedonian Airline in 1992, a charter subsidiary in order to enter into this market segment. The declining market share presents the lack of competitiveness by Olympic Airways for the entire period examined.

Figures 3.6, 3.7, 3.8 and 3.9 show flights, offered seats, passenger traffic and load factors of all Greek carriers that operate in the domestic market in the period 1997-2002. Before 1997, only Olympic Airways operated in the domestic market.

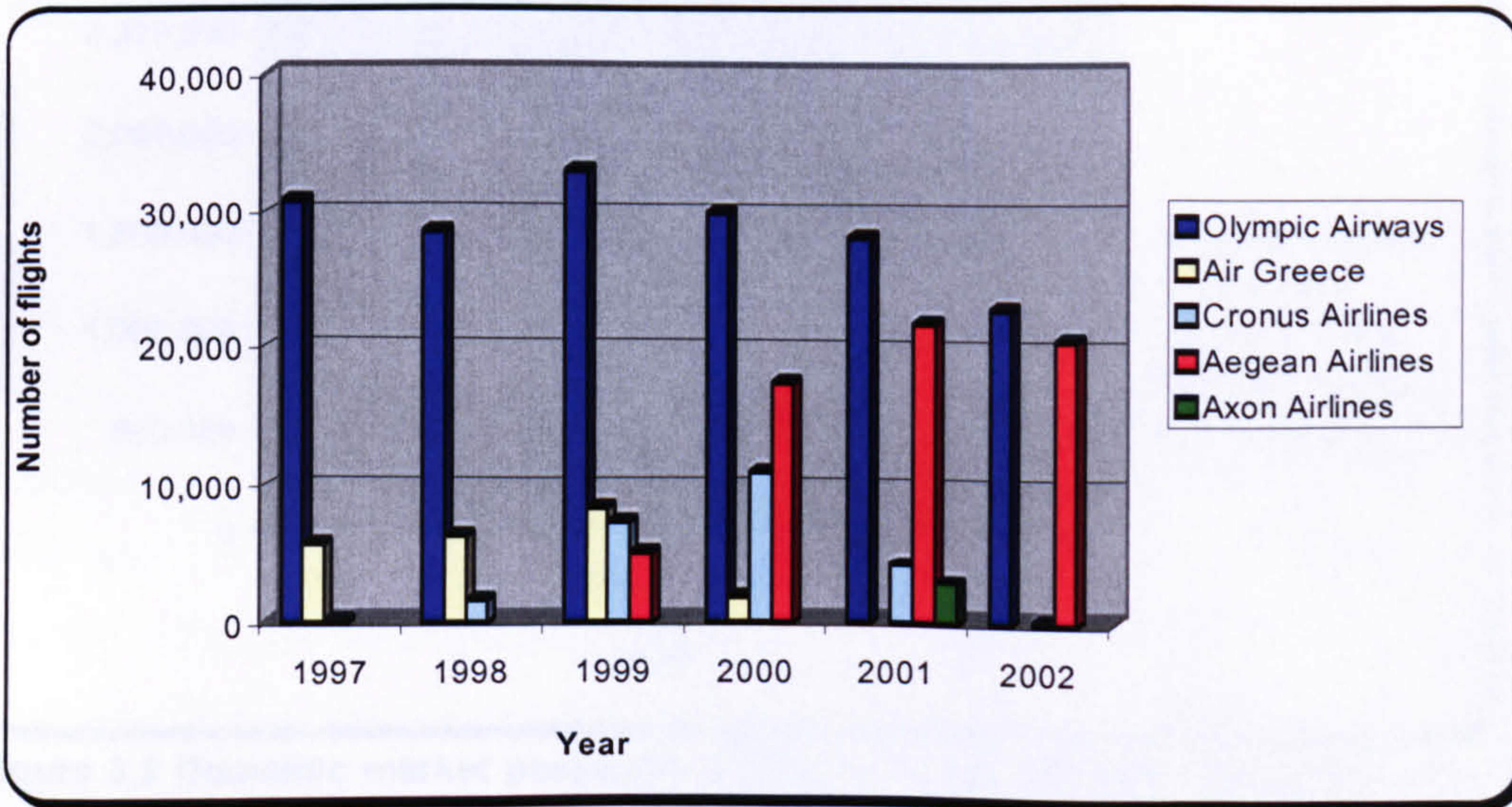


Figure 3.6 Number of domestic market flights made by Greek carriers (Olympic Airways, Network Analysis Sub-division)

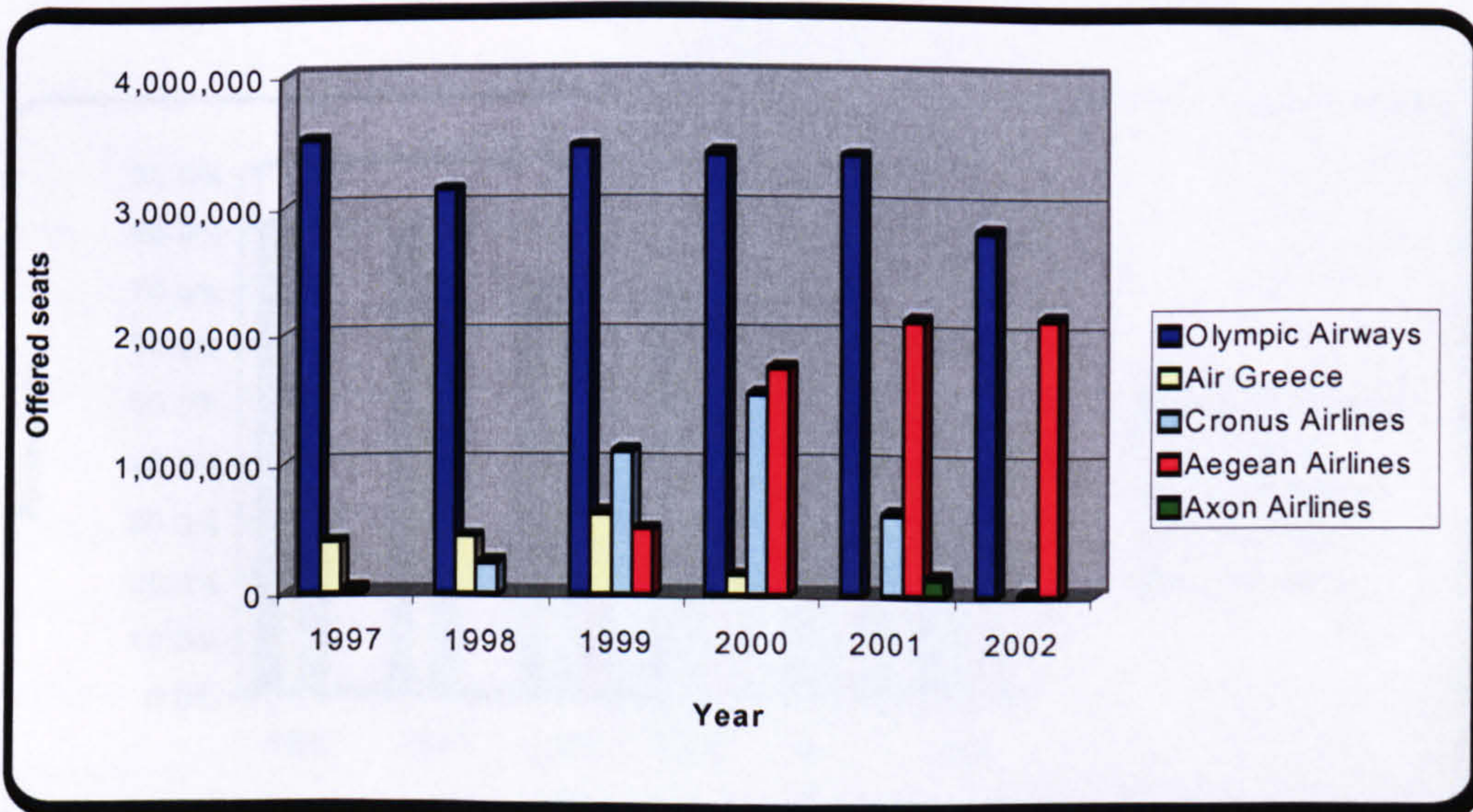


Figure 3.7 Domestic market seats offered by Greek carriers (Olympic Airways, Network Analysis Sub-division)

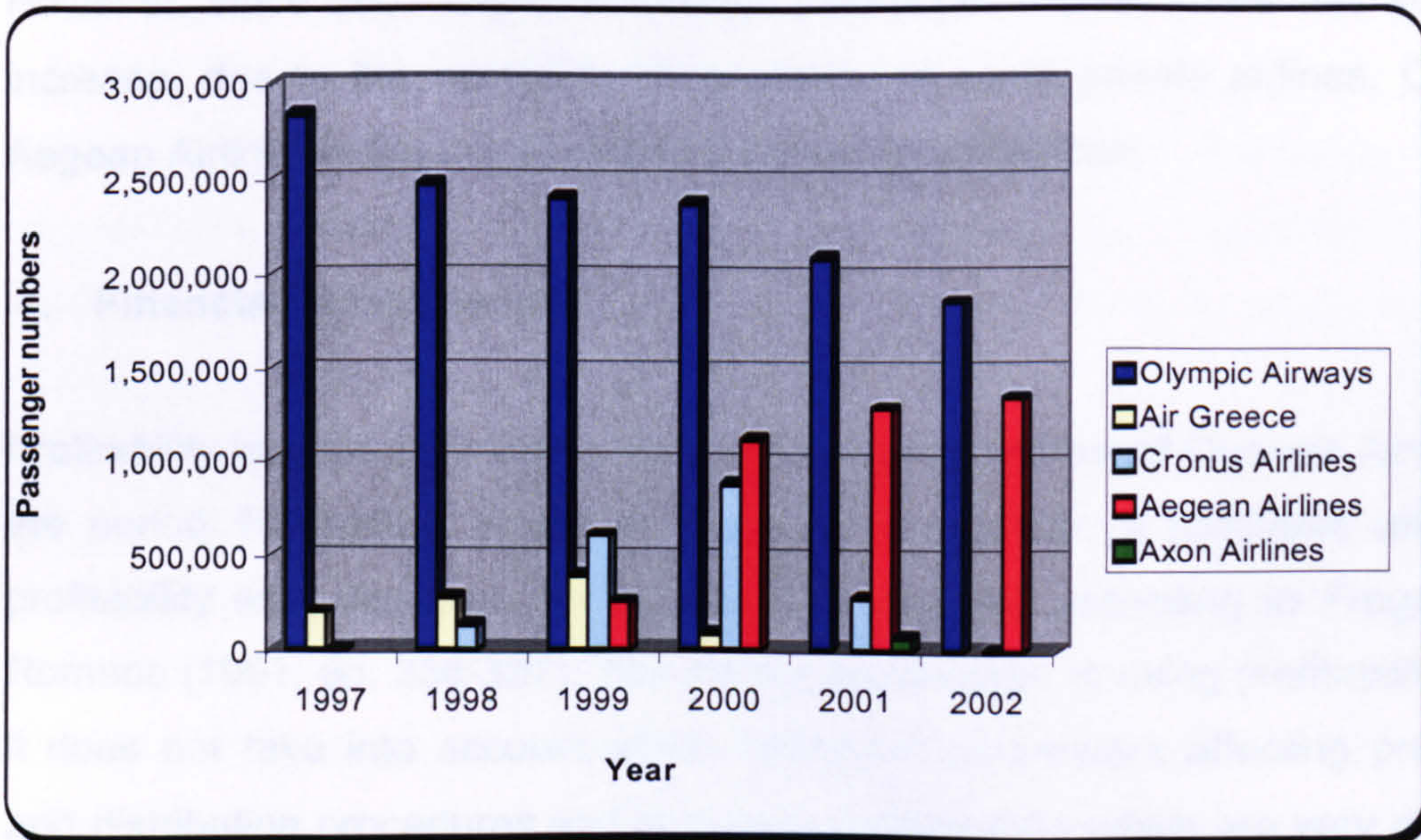


Figure 3.8 Domestic market passenger traffic for Greek carriers (Olympic Airways, Network Analysis Sub-division)

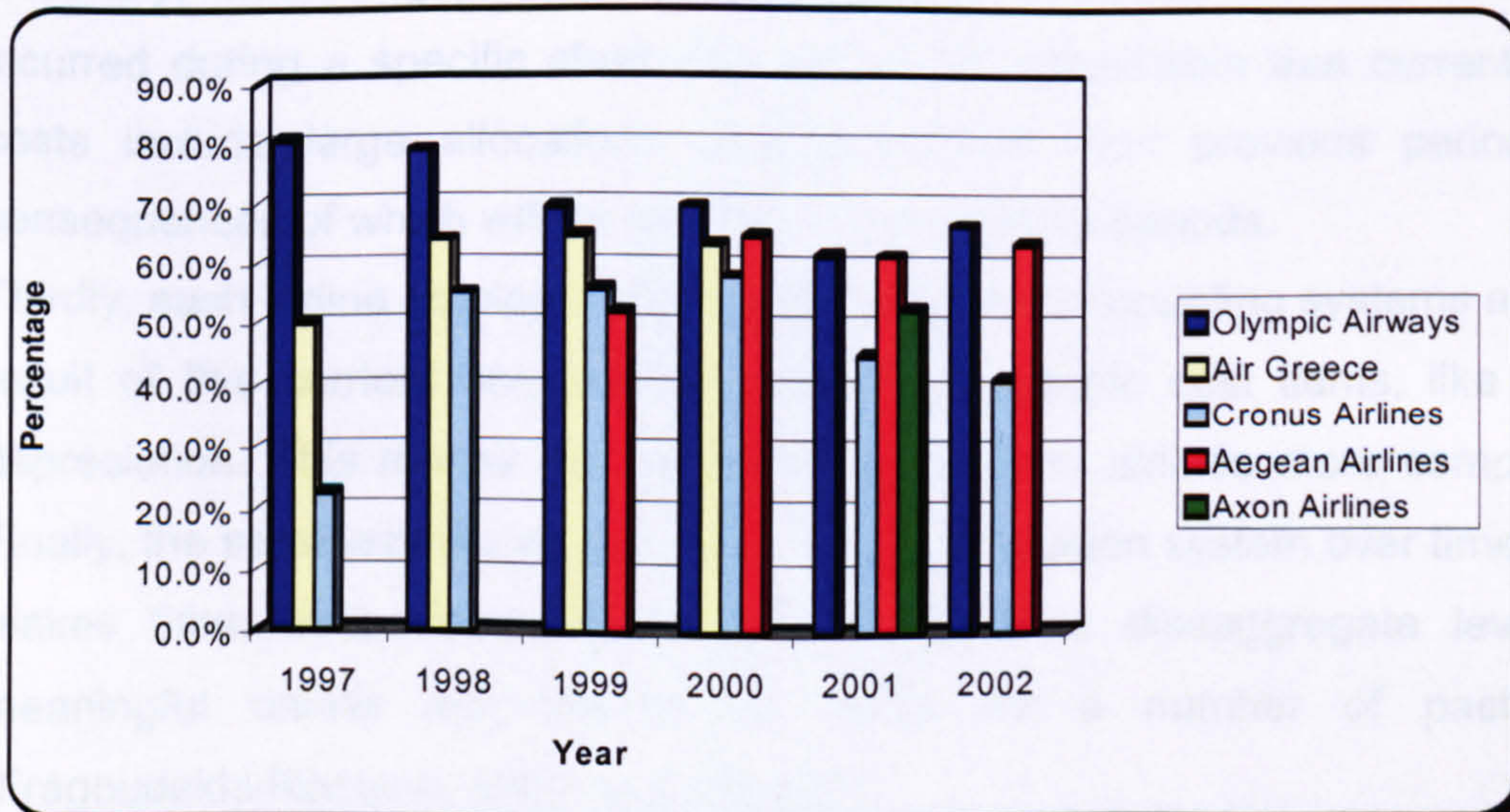


Figure 3.9 Domestic market passenger load factors for Greek carriers (Olympic Airways, Network Analysis Sub-division)

It is clear that though Olympic Airways retains almost the same number of flights, its share has declined rapidly due to the expansion of the other private airlines. However, since 2001 Olympic Airways passenger market share has started to increase, due to the cessation of operation of some private airlines. Currently Aegean Airlines is the most important domestic competitor.

4. Financial Performance

Profitability is used to measure the financial performance of Olympic Airways for the period 1990-2001. However, there are a number of problems with using profitability as a measure of financial performance, according to Fragoudakis-Romeos (1991, pp. 336-337). The main disadvantage of using profitability is that it does not take into account some intangible parameters affecting production and distribution procedures and company performance which are very difficult to quantify and incorporate into a management accounting system; such as management efficiency, marketing economies of scale, and the acquired technical know-how.

Secondly, measuring profitability is an attempt to match revenues with costs incurred during a specific short time period. It is inevitable that current period costs include large allocations of expenditures from previous periods, the consequences of which will be realised in many future periods.

Thirdly, each airline employs different management accounting systems and as a result of this carriers use various methods to handle cost items, like aircraft depreciation. This makes the comparisons between airlines more complicated. Finally, the same airline can use different cost allocation system over time, which makes time series inter-airline comparisons at a disaggregate level less meaningful unless adjustments are made for a number of past years (Fragoudakis-Romeos, 1991, pp. 336-337).

As far as Olympic Airways is concerned, some changes in the cost allocation system were made in 1997, but the necessary adjustments took place in order for the data and the extracted conclusions to be comparative.

In the present study, profitability is measured as the difference between operating revenues and operating costs. According to Fragoudakis-Romeos (1991), an airline financial data includes a risk, which is related with the multiplicity of currencies, and for many airlines, due to the time lag between actual and reporting time, it involves a lot of estimates (pp. 339). Olympic Airways' revenues are mainly affected by the fluctuation of exchange rates because about 70 per cent of its revenue is produced in foreign currencies.

Figure 3.10 presents the profitability of Olympic Airways for the period 1990-2001.

In 1990-1994, the airline industry experienced the worst financial crisis in its history (see section 2.1). However, during that period, most European airlines also faced heavy losses.

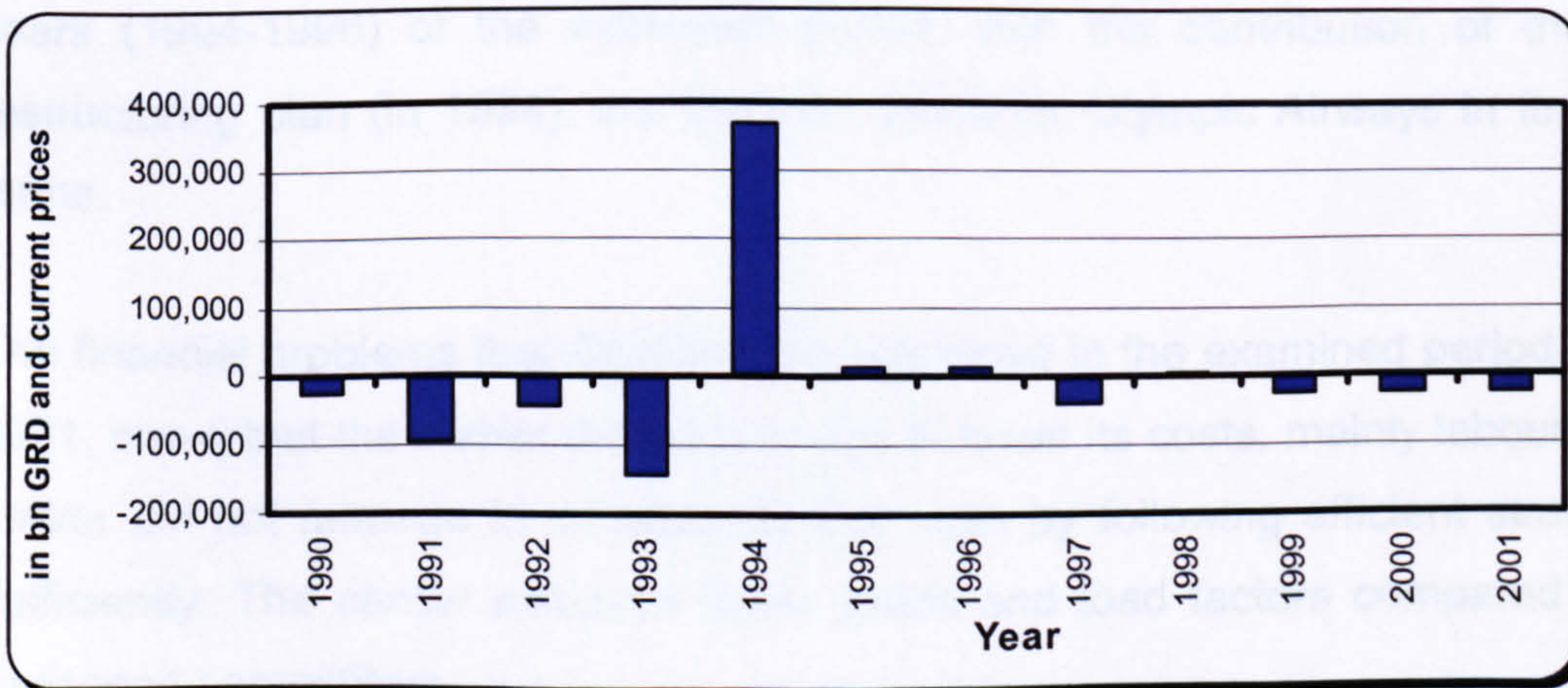


Figure 3.10 Olympic Airways Profits/Losses in 1990-2001 (Olympic Airways, Financial Department)

Olympic Airways achieved profitability for years 1994, 1995, 1996 and marginal profitability in 1998. In addition, Olympic Airways achieved marginal profitability in the period 1976-1977. These are the only years which Olympic Airways has

achieved profitability during its history. The contribution of the two restructuring plans in 1994 and 1998 did improve the carrier's financial viability. As did the injection of US\$2.3 billion in 'state-aid' in 1994.

However, according to Doganis (2001), state-owned airlines present much greater losses than those shown on paper because they receive indirect subsidies from their governments, which artificially reduce their costs. For example, state-owned airlines can avoid paying airport landing fees in the domestic sector and sometimes for international flights, as was the case for Olympic Airways in the past; they may not be charged rent for office space, check-in desks or land they use at the national airports; they may also be provided with fuel at reduced prices or even free of charge (pp. 188).

The probable indirect subsidisation of Olympic Airways by the Greek Government, in conjunction with the risks that the use of profitability as a performance measure involved, mean that a more extensive analysis of Olympic Airways profitability will not take place. However, what is clear is that the mid years (1994-1996) of the examined period, with the contribution of the first restructuring plan (in 1994), are the best years for Olympic Airways in financial terms.

The financial problems that Olympic Airways faced in the examined period 1990-2001, prove that the carrier did not manage to lower its costs, mainly labour costs and/or did not manage to increase its revenues by following efficient strategies sufficiently. The carrier achieved lower yields and load factors compared to its European competitors.

In conclusion, during the period 1990-2001, Olympic Airways neither improved its performance, nor did it manage to maintain its position in the market. Thus, the lower yields, the lower load factors, the lower market shares and the lower profitability have driven the carrier into a difficult financial position.

During the examined period the airline also faced high passengers traffic seasonality; however, this was expected, as its home base, Greece, is a tourism receiving country.

From 1998 onwards, due to fierce competition from other Greek carriers, Olympic Airways lost significant market share in the domestic market. The same applies to its international operations due to intensification of international competition. This reflects the fact that Olympic Airways has been unable to respond to increased competition through improving the offered service.

Olympic Airways should therefore focus on making improvements in the cost areas and more commercial oriented strategies to be adopted in order to achieve both short and long term survival.

Chapter 4

Literature Review

The literature review consists of four parts. The first part presents a brief description of strategy formulation and implementation concept. In the second, Porter's generic strategies are discussed. The third details the market orientation concept. Finally, the fourth part covers the combination of these two concepts. The last three parts of the literature review all finish with a research question. The present thesis examines the implementation of the above theories to the airline industry.

Airlines are operated within an extremely competitive environment. Experience proves that firms, in order to outperform their competitors, should achieve competitive advantage, either by offering low-cost low-price products, or by differentiating their products and charging higher prices than those of their competitors, or by being more market oriented.

A short presentation of strategy formulation and implementation is appropriate in order to understand its necessity in the complex and turbulent environment in which firms have to operate today.

4.1 Strategy Formulation and Implementation

Liberalisation, commercialisation and technological advances have forced organisations to review and adapt their role. A successful transition to a modern, responsive organisation depends on the ability of its senior managers to formulate and implement strategies to ensure that services respond to the needs of today's industry.

Today's organisations operate within environments which are characterised by changing, complex and turbulent processes in all areas of business activity and development. In addition, an increasing globalisation of business activity has taken place. The above create additional problems for managers when formulating and implementing development strategies (Hauc and Kovac, 2000, pp. 61). Furthermore, the involvement of other factors such as employee union interference, government's intervention (especially for state owned organisations) etc. make the process from strategy formulation to strategy implementation less efficient. Also, the bureaucratic culture within an organisation can create additional problems for the whole process. Management continuity is typically also a problem for state-owned organisations (Dess and Davis, 1984, pp. 482). Consequently, firms should establish those procedures that allow them to operate autonomously without the intervention of these external factors in their operations.

The role of the human factor within an organisation is very important because the people make the difference and the people implement the strategy. People within an organisation may affect the efficiency of a firm's selected strategy, either promoting or impede it (Rajan, 2002, pp. 33). Therefore, firms should invest heavily in staff development - particularly in service organisations where people deliver the service – in order to achieve a competitive advantage.

A firm should adopt the appropriate leadership style in order for it to contribute to the efficiency of a selected strategy (Noble, 1999, pp. 19). Thus, the transformational style, suggested by Rajan (2002), which is adopted so successfully in much admired companies suggest that:

- ✓ Leadership is about taking people where they've never been before,
- ✓ It's about inspiring ordinary people to produce extraordinary results,
- ✓ It's about creating an image of the future that inspires enthusiasm and commitment,
- ✓ It's about responding to the deep emotions of people as they cope with the

journey,

✓ It's about encouraging learning by experimentation and tolerating mistakes.

This style of management stimulates the contribution of all employees to the firm's adopted strategy. Also, it convinces employees to take risks when they know that an appropriate reward system exists, achieving impressive results (Rajan, 2002, pp. 33).

Firms should develop the right incentive system in order to make the strategy formulation-implementation procedure more efficient. Thus, according to Noble (1999), those employees who are involved in the strategy formulation-implementation process should have the appropriate reward relief from normal responsibilities (pp. 19) and full support from the top management. Moreover, senior managers who are involved in the implementation process should lead and inspire all the functions involved in implementation (Noble, 1999, pp. 19). Also, top management should solve the problems that occur in the implementation team. However, most of the problems take place because team members have diverse backgrounds and mixed experiences. On the other hand, the combination of knowledge of people from various departments can contribute to more right decisions being taken.

Hauc and Kovac (2000) point out the contribution of strategic management to the process from strategy formulation to strategy implementation. Project management can assist with this procedure by presenting the ways of setting and achieving organisation's objectives. Moreover, they point out that a project oriented organisation can achieve higher efficiency in the process from strategy formulation to strategy implementation. Thus, organisations, through projects, can successfully and quickly formulate business strategies and can also implement these quickly, economically and efficiently (pp. 67). Furthermore, an organisation should develop procedures and mechanisms that make the process more efficient. The introduction of a systematic process of transition from strategy formulation to strategy implementation is necessary. Due to time

limitations, the shortening of time between strategy formulation and strategy implementation is also required (Hauc and Kovac, 2000, pp. 62). Finally, the separation between the strategy formulation and strategy implementation process is the main deficiency of most of the models of strategic management (Hauc and Kovac, 2000, pp. 61-62).

The implementation process is not an easy task. It requires the involvement and co-ordination of many departments within a firm. For the strategy formulation-implementation process to be more efficient, the co-ordination and motivation all the involved departments is necessary, in order to speak a common language, to share common goals, and to put aside their natural territorialism. However, personality differences, politics, communication problems, struggles for power and leadership can create obstacles that may undermine the implementation process (Noble, 1999, pp. 19). Furthermore, a well-coordinated organisation is required in order for this process to become more efficient.

Top management should appoint a responsible project team in order to accomplish the process from strategy formulation to strategy implementation. In most cases, the participation of top management is also necessary depending on the nature and importance of the strategic decision. In addition, the participation of the specific areas such as marketing, sales, development, informatics etc. which the strategic decision may concern is required. The involvement/participation of the people who will implement the strategy is also necessary.

Noble (1999) suggests a general model of the important stages from strategy formulation to implementation, which places emphasis on cross-functional issues and dynamics. The stages of the model are as follows:

- 1) pre-implementation;
- 2) organising the effort;
- 3) the ongoing management of the process; and

4) maximising cross-functional performance.

Pre-implementation: A team from several functions should be formed early on in the strategy formulation process. Moreover, it is necessary to establish cross-functional relationships between departments and all the departments that will adopt the strategy should be involved. The appropriate education for the team members is also required (Noble, 1999, pp. 20-24).

Organising the Implementation Effort: Pooling resources is an early step, which involves recruiting functions and individuals to play a part in the implementation effort. Resolving functional problems is also necessary for the success of the implementation process. Determining the proper leadership of the implementation team should take place with extra care, where the guidance of senior management is crucial. The development of the implementation plan also requires a cross-functional contribution. Developing partnerships is an essential aspect of any successful cross-functional process. Understanding the capabilities and concerns of other functions while make sure that your own area's concerns are heard is an important part of the organising stage (Noble, 1999, pp. 20-24).

Managing the Implementation Process: An efficient implementation process requires the development of close working relationships and understanding between those who initially plan, formulate and implement a strategy. In addition, the close proximity of functional areas is also important and can positively facilitate the process from strategy formulation to strategy implementation.

Top management would like to think that all areas of a firm have a single minded purpose to maximise company's performance, however the truth is that each function has different purposes. Top management must understand the goals of each function and persuade each function to work closely together in order to achieve the project's and company's goals. Moreover, a firm should overcome interpretive barriers, which are the differences that arise along functional lines in understanding a strategy. Communications barriers and individual personality

differences often influence implementation process. Also, varied goals from different functions may impede cross-functional implementation efforts.

Organisational resistance can produce costly delays to the implementation of a new strategy which can result in lost opportunities. There can even be individuals or functions which actively try to undermine a strategy implementation. Management should avoid such problems, either creating extra incentives for their co-operation or by minimising their involvement in the effort (Noble, 1999, pp. 20-24).

Maximising Cross-functional Performance: Cross-functional performance can be improved through: a) encouraging the use of informal networks whenever possible, b) instilling a sense of urgency and c) achieving 'buy-in' or broad company support (Noble, 1999, pp. 20-24).

According to Management Today (Regout, 2002), the appropriateness of a specific strategy depends on the economic situation of the world economy and the situation of the specific industry. Thus, in economic peaks it is easier to follow more aggressive market oriented strategies, on the other hand, a downturn can offer an opportunity to look for innovative ideas that will change the whole cost-base of the company (pp. 78), preparing the organisation for the next upward cycle. Furthermore, firms must act early by trying to anticipate any downturn and taking early preventive action.

The right communication between top management and the rest of the employees and between different functions is a necessary task. Staff should understand why and how the firm follows a specific strategy in order to support it. The contribution of employees and their unions to the strategy success is decisive. It has been found, that if people understand why you are following a specific strategy, even making painful cost cuts, they are more likely to support you (Regout, March 2002). On the other hand, if firm's employees don't

understand why a specific strategy is being followed and/or are given last minute bad news, they will tend to resist the new strategy (pp. 78).

Finally, a well organised process from strategy formulation to strategy implementation can contribute to total optimisation of resources, producing impressive results, and can create an important competitive advantage for organisations. The role of employees on the strategy formulation-implementation process and more generally to the achievement of strategy targets is very important. In addition, the selection of the 'right strategy' according to internal and external conditions can become an important competitive advantage for every firm.

Below, the Porter's (1980) generic strategies are now presented.

4.2 Porter's Generic Strategies

According to Porter (1980), the state of competition within an industry depends on five competitive forces.

- Industry competitors,
- Suppliers,
- Buyers,
- Potential entrants, and
- Substitutes for the product or service.

These five forces also determine industry profitability:

The above forces are important because they determine return on investment, effecting prices, costs and the required investments. Moreover, the above competitive forces are affected by industry structure and the fundamental economic and technical characteristics of a particular industry (Porter, 1980, pp. 3-5). The reaction of a firm to these competitive forces determine its competitive

strategy and well positioned organisations with respect to these five forces can achieve competitive advantage over rivals.

In terms of competitive strategy Porter (1980) identifies three broad generic strategies to compete in a selected industry. To be successful, a firm must decide how to position itself. A firm can follow cost leadership, differentiation or focus in order to achieve a defensible position in the long-run and to outperform competitors in an industry. Thus, firms can accomplish their strategic mission through pursuit of cost-based or differentiation-based competitive strategies and they can direct their efforts to the total market or can focus on specific segments. In addition to the above known generic strategies, there is another category of firms, 'stuck in the middle'. These firms, according to Porter (1980), are characterised by a lack of clear strategy. Firms, in order to sustain growth, should have a clear vision for its organisation and for the direction of the industry. Davidson (2001) pointed out that firms who muddle through decisions without a clear strategy are following "*a recipe for mediocrity at best and failure at worst*" (pp. 33). More discussion about this 'stuck in the middle' category can be found below.

Figure 4.1 depicts the Porter's generic strategies theory.

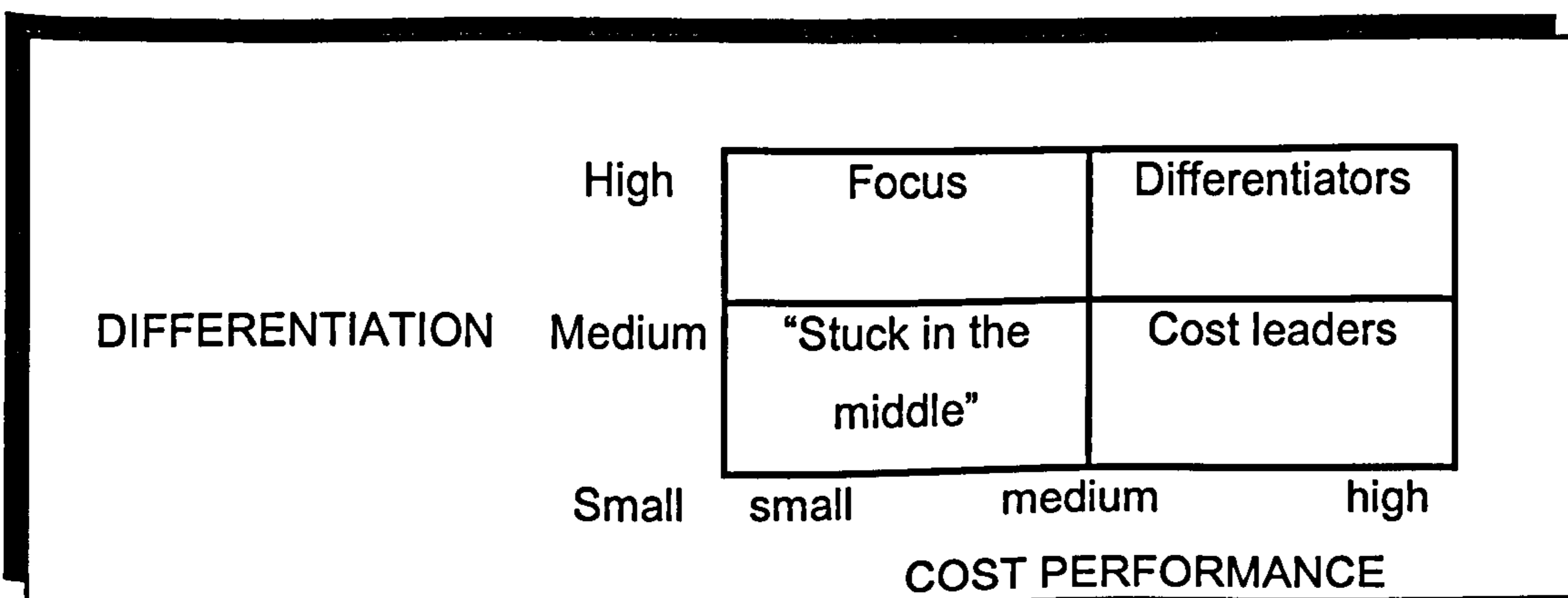


Figure 4.1 Porter's Generic Strategies (Porter, 1980)

Before Porter some other authors (Alderson 1957 and Smith 1957) had supported the same or similar theory in their writings (Samli and Jacobs, 1995, pp. 23-32 - Schul, Davis and Hartline, 1995, pp. 129-142).

4.2.1 Alternative to Porter's theories

Porter's model has "*received criticism in academia and industry; however the generic strategies concept remains useful to characterize strategic positions at the simplest and broadest level*" (anonymous author, H.B.R. 1996, pp. 67).

In addition to Porter's three generic strategies there are some other theories, which present different available alternatives for firms. However, these strategies can be seen to be variations on the above mentioned Porter generic strategies. Noble (1999) suggested that there are two types of strategies with specific skills, the 'product-driven' engineers focus on product innovation and technological breakthroughs and 'market-driven' marketers place great emphasis on customer feedback and on other forms of marketing research, in order to develop their products and services (pp. 20). It is clear that the 'product-driven' engineers are equivalent to Porter's cost leaders, placing great emphasis on production and the 'market-driven' marketers are equivalent to differentiators, who focus on marketing research and R&D functions, in order to offer the right products. Noble (1999) distinguishes the roles of the marketing and manufacturing departments within a firm. Thus, he stated that marketing's main goal is to stimulate demand and generate increased sales and market share. In contrast, manufacturing's aim is to control supply, minimise costs, and improve operating efficiencies (pp. 20). He does, however, note that all functions within a firm should co-operate closely in order to achieve synergies and higher performance.

Johnson and Julius (1995) offer the integration-responsive framework and stress that there are three alternative strategies for firms that compete within a single global industry: globally integrated, locally responsive and multifocal. This

framework is useful and can be used to develop an understanding of the generic strategies within the examined airline industry and other industries. As Johnson and Julius (1995) stated, studying businesses that face increased global competition shows that the competing pressures for integration and responsiveness commonly exist, so in any single industry a variety of strategic options would be possible. Thus, globally integrated organisations link activities across countries in an attempt to minimise overall costs. Locally responsive firms try to adjust their products to the local needs. Multifocal businesses try to respond simultaneously to both integration and responsiveness pressures (Johnson and Julius, 1995, pp. 621-625). Moreover, Johnson and Julius (1995) support that globally integrated businesses place more emphasis on cutting their costs, through increased product standardisation. On the other hand, locally responsive firms follow a differentiation strategy, because these firms cannot manage to achieve cost advantages. Forms of differentiation for these firms can be product specialisation, customer specialisation, geographic specialisation, or some form of quality advantage (pp. 621-625). Multifocal organisations adopt a focus strategy, placing great emphasis on those segments, which offer more opportunities for them.

Firms widely implement Porter's generic strategies in order to achieve a competitive advantage. Moreover, the Porter's (1980, 1985) typology of generic strategies and competitive dimensions provide a potentially valuable research tool for identifying the strategies of all competitors within an industry (Dess and Davis, 1984, pp. 468-469). Porter's strategic theory provides a framework upon which leaders can build their organisations, even during the most difficult of times (Hyatt, 2001, pp. 13).

Therefore, whilst incorporating some of the ideas from the alternative theories, the empirical examination of Olympic Airways will use Porter's generic strategies as a main base of comparison/discussion.

The detailed presentation of the Porter's generic strategies follows.

4.2.2 Cost Leadership Strategy

Porter (1980) describes the cost leadership strategy as follows:

“Cost leadership requires aggressive construction of efficient scale facilities, vigorous pursuit of cost reduction from experience, tight cost and overhead control, avoidance of marginal customers accounts and cost minimisation in areas like R&D, service, salesforce, advertising and so on” (Porter, 1980, pp. 35).

The majority of firms are in a continuous effort to drive costs further down. This provides them with the ability to reduce price and to increase profits. However, cost reduction is not an easy task. Dickson (1992) supports that cost-cutting innovations are more attractive for businesses because *“their effects are more predictable than those of other innovations”* (pp. 71-83). Firms who introduce such innovations, and have the ability to maintain this competitive advantage for a long time, can achieve significant financial benefits. Furthermore, these cost innovations are extremely difficult for competitors to copy, at least initially.

The cost leadership strategy requires a firm to outperform rivals in cost terms, by having significantly lower cost structures. Porter (1980) pointed out that in a situation where there is a lack of advantages based simply on the scales of operations, competitors must focus primarily on standardisation and efficiency to lower their costs. Efficiency can be achieved *“through a productivity orientation built around lowering costs via investments that increase capital intensity, improve production technology, and support material and organizational processes and operations”* (Schul et al., 1995, pp. 129-142).

The cost leadership strategy requires that a firm is the lowest cost producer rather than merely one of the lower cost producers (Davidson, 2001, pp. 33). According to Porter (1980), the lowest cost producer can enjoy the advantages of

this strategy. The others low cost firms may copy the cost innovators, although it is not an easy task as this cost advantage tends to be based on many internal strengths and, therefore needs time to build it.

Porter (1980) and Grant (1991) both point out that successful implementation of low-cost leadership requires stringent cost controls, financial controls through budgets and the setting of quantitative goals (Beal and Yasai-Ardekani, 2000, pp. 741). However, according to Porter (1980, pp. 35) these firms should not ignore the qualitative goals, although their primary emphasis is on quantitative targets.

A cost-leadership strategy often requires a high market share, which allows firms to achieve significant economies of scale and a dominant cost advantage (Kling and Smith, 1995, pp. 26-33). Thus, achieving a low overall cost position may require favourable access to raw materials, significant capital investments in state of art equipment and modern facilities (Porter, 1980, pp. 36), low labour costs, flexible working regulations and so on. When a firm attains a cost-leadership position entry barriers for other competitors rise, since they need greater capital to enter into the market. Increased market share might allow for economies of scale in purchasing supplies, lowering costs even further, which a new entrant cannot manage. The cost leadership strategy leads firms to higher margins, which can be reinvested to expand facilities or purchase new equipment (Porter, 1980, pp. 36 - Hyatt, 2001, pp. 12-13). Therefore, cost-leaders direct their efforts to increase their size and market dominance, producing/offering higher volumes of products/services, in order to reduce operating costs and achieve higher margins. Thus, cost leadership seems to be related to big size, as costs decline in real terms for each increase of production in accumulated volume. The relationship between experience and cost declines is known as the 'experience curve effect'. This can also occasionally create entry barriers into a specific industry for rival firms (Porter, 1980, pp. 16). Moreover, in addition to experience benefits, big organisations can also achieve learning benefits, driving their costs down. According to O'Shaughnessy (1995): "*in practice, experience*

curve effects and economies of scale cannot be easily disentangled (though economies of scale, unlike experience curve effects, can become diseconomies of scale) so usually experience effects, as operationally measured, include economies of scale. But because it is possible for economies of scale to reduce costs before experience effects get under way, it is theoretically possible for a manufacturer to enter a market and, operating on a larger scale, achieve a lower cost per unit than the long-established manufacturer operating on a small scale” (pp. 48-49). Thus, larger sized organisations may reap significant benefits entering into a large market, offering low-cost low-price products.

The cost leadership concept is based upon the declining cost curve concept, which was developed by Boston Consulting Group (BCG, 1980). If firms achieve significant economies of scale, scope and learning, then they can move to a lower position on the industry cost curve (Amit 1986). Thus, firms that have the advantage of being the furthest down the cost curve can use price as an important competitive advantage (Ahmed and Rafiq, 1992, pp. 49-57), in order to either achieve higher margins or to significantly increase their customer base.

Cost leaders try to minimise costs that are related to marketing, sales, research and development (R&D) and distribution areas. However, Patrick Regout in *Management Today* (March 2002, pp. 78) suggests that firms should carry out a cost/benefit analysis of potential cost-cutting areas. He identifies that areas such as sales and marketing, training, research and development (R&D) and capital expenditure are among the easiest in which to make a short-term gain, but cutting costs from these activities could damage the business in the longer term. For example, employee training and education cannot be put aside since it is an essential element contributing to the organisation's efficiency. Well trained managers are those who have acquired effective management processes and who understand the importance of maintaining the highest possible standards of quality in their products and services (IATA Aviation Training and Development Institute, March 2002, pp. 1). Consequently, firms should scrutinise any cost

element and before to decide to cut them, to examine its potential impact to firm's efficiency in the long term.

An important approach and 'a smarter approach' to cut costs is outsourcing, which is able to change the fortunes of entire industries, not just individual firms. A Morgan Chambers report stated that 56 per cent of the FTSE-100 companies in UK outsource internal services. Huge growth and increasing diversity has also occurred in business process outsourcing. This is because firms who specialise can do certain functions cheaper and more effectively due to their specialist knowledge. In addition, outsourcing "*now has the maturity and capability to play a key role in driving business strategies and business benefits in a directly measurable, financially efficient and effective way*". A key problem with outsourcing is that it can meet with resistance of firm's employees and their unions (Regout, 2002, pp. 12). This is more likely to happen to state owned firms, where the power of unions is higher.

In order to achieve these cost reductions, cost leaders need to create the necessary organisational arrangements, control procedures and '*a culture and incentives*' within an organisation in order to encourage cost-cutting innovations (Porter, 1980, pp. 40 and Dickson, 1992, pp. 71-83). Thus, the entire organisation should pursue the goal to minimise costs. From the top to the bottom and from the bottom to the top, all employees must pursue the same goal. Cost cutting is a painful process, therefore a key role for top management is to protect the morale of the employees. An organisation should encourage its employees to achieve organisational targets by providing appropriate incentives.

The above discussion shows that cost leadership relates primarily to production efficiency. Therefore, cost leaders are more production oriented firms. However, all these cost savings are not sufficient today where the "*achievement of economies of scale is always constrained by a number of variables such as the highly competitive substitute products, continued change of consumer*

preferences, difficulty in controlling costs of production and marketing, and saturation of products in the marketplace" (Liao and Greenfield, 1997, pp. 544). Therefore, in parallel to investigation of potential areas of cost savings, marketing programmes and market research are vital investments for firms to survive, in order to be aware of market trends and to respond to them quickly before the competitors. This is because cost leaders are likely to produce products that are not exactly what the markets desire (Samli and Jacobs, 1995, pp. 23-29). The main interest of these firms is to produce their offerings at a lower cost, to offer them with the lower prices, without giving the appropriate emphasis to what the market really wants. In contrast, other authors stressed the importance of a business being close to its customers (Wong et al., 1994, pp. 18) and "*orchestrating service to fill customers' value – driven needs*" (H.B.R., 1995, pp. 101), although this close monitoring of the market usually requires higher costs.

Porter (1980, pp. 45-46) also identifies that cost leaders face a key risk to deteriorate "*through sole concentration on cost leadership*". In addition, cost leaders should place great emphasis on monitoring their cost evolution within the organisations and costs of their current and potential competitors, in order to maintain their low-cost competitive advantage, otherwise they can lose this.

4.2.2.1 Cost Leadership and the Airline Industry

Today's intense competition and the bad financial situation of the majority of the world airlines, has forced carriers to cut their costs in order to improve their margins and finally to survive. Lower costs mean higher profits only under the assumption that industry-wide prices are fixed (Sammiee and Roth, 1992, pp. 6); however, in the airline industry, prices more often follow a declining trend due to increased competition, therefore carriers can only achieve profitability if their costs are declining more than prices decline. The only positive aspect to these declining prices is that the lower fares mean that passengers are prepared to

sacrifice some service privileges (Airline Business, Feb. 1998, pp. 27). This enables carriers to reduce costs by minimising service extras.

This seems to go against Porter's (1980) theory that firms that pursue the cost-leadership strategy cannot ignore quality, service, and other areas (pp. 35). Thus, except the American and European low cost low fare carriers, many full service established airlines –most notably the major US carriers – seem to have focused on cost cutting to lower their prices at the expense of their service quality (H.B.R., 1995, pp. 101). Thus, reservations can be made by phone or by internet and tickets can be sold at the gate or on the plane. Baggage can be checked only to the next stop and not to the final destination for passengers who travel many segments, thus airlines avoid the cost of interline baggage transfer. Moreover, only cold meals are offered on board and passengers have to pay for them.

Civil aviation is both a capital and labour intensive industry, airlines face high fixed costs, low profit margins and *“industry costs are characterised by very high variation among carriers”* (Straszheim, 1991, in Doganis 1994, pp. 19). Thus, the unit costs – a cost performance indicator - vary widely between airlines as a result of differences in the nature of their operations, particularly from their sector distances¹ and from the size of aircraft used (Doganis, 1994, pp. 19). Because of the fierce competition, high costs, cannot be fully passed over to passengers, so airlines must cover them by improved productivity (Dagtoglou, 1994, pp. 25). Therefore, airlines need to focus on improving staff productivity, through new contracts, monetary and non-monetary incentives and so on.

The ability to control the input costs is crucial for the financial situation of airlines. Table 4.1 presents the breakdown of operating costs and the difference between North American, European and Asian carriers.

¹ Sector distances: The distance of routes that a carrier operates. Higher distance routes affect downwards some carrier costs such as crew costs, catering, etc.

Table 4.1 Breakdown of Operating Costs

Input	N. American Airlines	European Airlines	Asian Airlines
Labour	32.5%	32.5%	20.0%
Fuel	11.2%	9.2%	12.6%
Capital	17.1%	13.1%	15.3%
Materials	39.2%	45.2%	52.1%

Source: *Winning Airlines: Productivity and Cost Competitiveness of the World's Airlines*, Air Transport World, 2/1998, pp. 59.

It is clear that Asian airlines have lower labour costs than both European and American counterparts. On these low labour costs Asian airlines are based on to offer higher quality products to their passengers.

Labour expenses are the airlines' largest cost component, amounting for roughly 35 per cent of operating costs. Doganis (1994) identifies reducing staff numbers and renegotiating wages as key cost cutting measures but also increased labour productivity is important. According to the Air Transport Association (A.T.A.) airlines are under pressure to avoid interruptions in operations, which hurt their cash flow. Carriers therefore had to settle on generous wage rises negotiated with labour groups, which has, according to A.T.A., resulted in average compensation for airline workers growing at rates above inflation. Based on recent contract settlements, labour rates are expected to increase steeply. The A.T.A. analysis says the average airline employee makes over \$73,000 a year, including pension and insurance benefits. Annually, compensation has grown at a rate of 3.5 per cent since 1986 (A.T.A., 2002, pp. 1). Airline's management try

to press the level of employees wages, employ more part time staff and finally lay off staff particularly in difficult for the industry times (Lobbenberg, 1994, pp. 10).

Consequently, to achieve significant productivity gains it is necessary for carriers to take painful measures, such as job redundancies and more workload for the remaining employees. Each round of productivity improvements is harder than the last, as companies relentlessly chase ever more challenging levels of efficiency (Airlines Business, November 1995). However, the pressure to increase productivity and decrease labour costs is more intense when the industry is in tough times. It is also difficult in the face of considerable union resistance, especially in Europe where the unions are very strong and have the power to affect management's decisions.

Airlines have also used outsourcing to drive costs further down, particularly expensive functions such as catering, heavy maintenance, accounting, etc. These functions are often outsourced to firms based in different countries, as they have lower labour costs, for example many airlines use Indian firms to do their accounting. The main disadvantage of this method is that firms loose the control, thus it is difficult to outsource things over which firm needs control (A.T.W., 3/98, pp. 32).

The downward trend in fuel prices of the late 1980s appears to have levelled off. Although, the fuel costs are largely beyond the carriers' control, efficient fuel management can have important benefits for airlines. However, fuel prices increases significantly affect carrier's financial position and they pass some of this increase to passenger's fares, as this happened in 2004.

Development in aircraft technology may help to cut costs either as a result of the introduction of entirely new aircraft types or through the accelerated introduction of existing types, which are more cost efficient than aircraft currently operated. Also, the use of bigger aeroplanes can drive costs per travel passenger down,

because they can carry more passengers to longer distances. On the other hand, the purchase, maintenance and operating costs of the large aeroplanes are very high, accompanied with the fluctuation of oil prices, the environmental protection measures and the fleet renewal with new or leased aeroplanes, require huge amounts of investments from airlines.

One way that the industry has found to reduce costs in this area is through participating in alliances. Carriers that are members of alliances can lower their costs, using the total alliances' network, and increase their collective share of the world market, generating more business for all partners, than they would be able to obtain on their own (Marshall in H.B.R., 1995, pp. 109). Therefore, there are significant economies of scale on the revenue side, which is driving all the alliances. In addition to benefits gained through the synergies that an alliance provides its members, carriers can benefit from the purchasing of similar types of aeroplanes and from changing them with the other alliance's partners to match planes with passenger traffic. This can provide significant cost benefits and better use of aeroplanes for those carriers.

The level of marketing costs that airlines face depends on management decision. Thus, the quality, costs of in-flight and ground services, passenger and cargo handling services, the level and nature of advertising, sales and other promotional activities, should be examined carefully by management (Doganis, 1994, pp. 6). Airlines that emphasise cost leadership tend to minimise or not to spend heavily on marketing costs. In the airline industry marketing and distribution costs represent between 18 and 26 per cent of their total operating expenses. Full service scheduled carriers can learn from the low cost low fares counterparts about how to minimise their marketing and distribution costs.

According to Doganis (1994) airlines can use the following methods to cut their costs:

a) reducing staff numbers,

- b) renegotiated existing wage levels and conditions of employment in order to reduce the cost of the labour,
- c) to set-up low-cost subsidiaries with lower wage scales and/or more flexible terms of employment,
- d) to move certain activities away from their home base to countries with lower wage levels (outsourcing) (pp. 18-19).

The above methods of cost reduction are applicable for every carrier independently, from its geographical location.

In addition, airlines can reduce their costs cutting down unprofitable routes.

Low-cost airlines follow the general principles of the low-cost strategy, as described by Porter (1980) and the number of these airlines, particularly the low cost low fares airlines, has increased rapidly. They focus on specific segments, mainly on leisure markets. They have much lower costs than the established full service carriers, which enables them to challenge on price, and tend to have a geographical focus, which make their offered product attractive from a local schedule convenience perspective (Bowler, 1994, pp. 4).

The low-cost subsidiaries are in a more advantageous position than low cost low fares airlines, because they have the support of the well known brand, experience and financial resources of the parent company, to overcome difficult situations and "*add in extra services to meet customer demands*" (Airline Business, February 1998, pp. 27-31).

In the highly competitive airline industry, carriers must compete on a global basis, but their offerings must also be adapted to local needs, consequently they cannot reap significant benefits from high standardisation. In order to lower their costs, airlines need to follow the example of the cost leaders in the manufacturing industry who mainly produce standardised products (Schul et al., 1995, pp. 129-142) and increase volume. Airlines offering high volume and non differentiated products would be able to build competitive cost structures and achieve

significant economies of scale and scope across many activities, such as catering, maintenance etc. However, whilst carriers may follow standardisation, in customers eyes, they should still be seen to offer products that serve the needs of unique customers. They can follow 'process standardisation' as Sammiee and Roth (1992) stressed (pp. 6). Thus, airlines can achieve significant cost savings if they gather certain operations in one place to produce high volumes and then change to adapt to the local needs. This can happen in catering and reservation centres (Easyjet reservation calls are answered by the carrier's call centre in Luton, where there are employees who speak the language from all the countries served by the carrier), for example. If they manage this, then they will achieve a significant competitive advantage.

According to Sir Colin Marshall (H.B.R., 1995), chairman of British Airways, airlines should give the same emphasis to the two sides of the business equation, costs and revenues. Any business that places more emphasis on one at the expense of the other is going to pay very heavily (pp. 102). Therefore, those firms that focus on both sides of the costs and revenues equation achieve higher performance than rivals who are interested in increasing their revenues without monitoring their costs. Low costs are more important for price-driven markets (Wong et al., 1994, pp. 16). Although competitors can imitate the lower prices, the advantage will come for those firms who can sustain these lower prices. A firm can sustain these lower prices if it has the lowest cost base among competitors and is prepared to sustain a price-based battle; but it has been seen that this is very difficult to achieve (Johnson and Scholes, 1993, pp. 210). Therefore, the most important issue for every firm that has a low-cost base is to maintain this base because high cost carriers will be unable to compete successfully on a price basis, given their higher cost structure. Higher cost airlines can only compete with lower cost competitors, by offering lower prices, for a short time period, after this period they cannot sustain this level of prices. Big established full service carriers do have the financial background to subsidise some routes for a short or medium time period and maintain lower prices in these

routes. The winner of this battle is the firm who can sustain these prices for longer time periods without having a significant impact on its financial situation. Consequently, low cost airlines can become a very serious threat to other established higher-cost carriers when competing on the same routes.

Furthermore, as highlighted at the beginning of literature review, cost leadership strategy is related to size of a firm. Larger firms have more chances to decrease their costs. Larger firms can achieve significant economies of scale, volume and scope. They have more available resources to invest in the production facilities, to encourage innovations, to adopt more market oriented strategies, and so on. In the airline industry, cost leaders can increase their revenues by selling a higher volume of seats and by trying to further expand their operations. To achieve significant economies of scale airlines have to be active in virtually every marketplace. Participation in alliances provides this opportunity. Therefore, airlines have to decide whether they should try and achieve the benefits of scale through alliances, mergers and acquisitions or whether to concentrate on being smaller niche carriers (Doganis, 1994, pp. 15-16).

However, some opposing arguments to this theory have also been put forward. According to A.T.W. (3/98) *"since the post-Gulf war downturn some come to believe that powerful economies of scale exist in this business"*. However, there are cases such as America West Airlines, where unit costs of the smaller carriers are lower than much larger competitors (pp. 31). This can encourage new entrants to compete with the long established full service carriers.

According to Flanagan from Emirates, *"beyond a certain size of airline, unit costs start to go up even with airlines recognised as being very efficient"*. This can be explained by the fact that airlines are complex businesses and beyond a certain size administrative complexity begins to increase as it were geometrically rather than arithmetically (A.T.W., 3/98, pp. 31). Therefore, there are economies and diseconomies of scale that are influenced by size. Thus, economies of scale

would exist in purchasing, marketing, while diseconomies come from the complexity. However, the widespread adoption of the hub-and-spoke systems, powerful Computer Reservation Systems (CRSs) and the creation of Frequent Flyers Programmes (FFPs) are new economies of scale, which are created by bigger airlines on the revenue side (A.T.W., 3/98, pp. 32).

Therefore, airlines must select the 'right size' either operating as a part of an alliance or based on their own strengths. The 'right size' is the size which doesn't create complexity problems but does achieve significant economies of scale.

Doganis (1994) stressed that those airlines which place great emphasis on product development and select to offer a higher quality product face higher costs. However, product simplification and operation at higher load factors may affect costs downward. On the other hand, the more competitive environment following liberalisation is pushing airlines to spend more on product differentiation, while load factors are tending to decline (pp. 2). A more attractive product, which means higher costs, can positively influence load factors and a carrier's financial position.

4.2.3 DIFFERENTIATION STRATEGY

While those firms that implement a cost cutting strategy can achieve a sufficient level of profits; another alternative strategic choice "*is one of differentiating the product or service offering of the firm, creating something that is perceived industrywide as being unique*" (Porter, 1980, pp. 37) and for which buyers are willing to pay a premium price. A differentiated firm can achieve and maintain superior returns if the price premium is greater than the cost involved in becoming unique (Davidson, 2001, pp. 33).

Every product has a number of attributes, and firms can differentiate them in order to appeal to specific customer segments that exhibit different demand

characteristics (Ahmed and Rafiq, 1992, pp. 49-57). Differentiation, according to Porter (1980), can take many forms including brand image, product features, customer service, dealer network, and technology (pp. 37).

Differentiation generally involves much more than product (Porter, 1980), thus for supermarkets ambience, location, car parks, petrol stations and so on are very important and provide significant bases of differentiation (Johnson and Scholes, 1993, pp. 208). The sources of differentiation range from variations in the product itself, 'imputed qualities' of product imparted by advertising messages, distribution methods and after-sales service facilities (Hooley et al., 1994, pp. 277). In addition, other bases of differentiation can be the product design and selection, staff training, information systems, careful choice and control of suppliers, customers treatment, the way in which complaints are dealt with and the credit policy of the finance department (Johnson and Scholes, 1993, pp. 217-8).

Moreover, one product can be perceived as unique and more attractive than competitive products when major improvements have occurred. Mathur (1992) also identifies that even minor improvements, such as adding colour to a washing powder, can have significant and fairly durable output advantages. These improvements require little cost and "*great deal of mental agility, rather than on big, costly and highly visible resources*" (pp. 199-217). Therefore, firms should look for changes that do not cost too much but do offer a differentiation advantage over rivals.

Beal and Yasai-Ardekani (2000) point out that referring to a broad term 'differentiation' may mask significant differences among different types of differentiation strategy and they suggest that firms can implement various differentiation strategies. Innovation differentiation, followed by those firms which "*create and market products that users recognize as distinctive, novel, or superior in design, features, or performance*". Marketing differentiation, followed by those firms which create an image in the current or prospective customers

eyes of the uniqueness for their products and services. Their offerings are superior to competitors' products and services even though differences may only be cosmetic. Quality differentiation, followed by those firms which offer higher quality products and services. Service differentiation, followed by those firms whose products/services are responsive to customers' needs and desires. The implementation of the above differentiation strategies requires specific knowledge, skills and abilities (pp. 736-741). Those firms which adopt more than one of the above differentiation strategies can achieve significant advantages.

According to Ahmed and Rafiq (1992), the differentiation strategy may be broadly based upon marketing strengths (brand image, customer service, dealer networks, etc) and/or research and development (R&D) strengths (product design, features, technology, quality, etc). They suggest that firms should develop marketing and/or research and development (R&D) skills in order to support a successive differentiation strategy (pp. 49-57). According to Saunders (1994), successful performance can be achieved, if firms offer unique products/product ranges, which can satisfy various customer groups' needs in the short-term. To achieve this in the long run firms should rely on investment in R&D (pp. 18). Thus, all marketing functions and R&D investments are necessary in order firms to offer a differentiated product that the market (customers) really wants. Therefore, those firms which follow a differentiation strategy should place great emphasis on marketing and R&D departments.

Marshall (in H.B.R., 1995, pp. 104) identifies that there are different bases for differentiation between packaged goods and service products. A packaged-goods business offers an object and can differentiate it by changing the colour, the packaging, and so on. It is easier for a firm to create a formula that produces a 'good product' and then to manufacture that product consistently, whilst changing some of its characteristics. In addition, market information collection is easier for packaged goods. On the other hand, in service industries firms are dealing with 'people's impressions and feelings'. Customers don't actually buy an

object; they buy an experience. Many human interactions are involved in producing an experience in a service business, thus *“it is often difficult to measure which interaction or series of interactions caused a customer to feel satisfied or dissatisfied”*. Firms who wish to provide value to consumers often have difficulty knowing exactly what a consumer considers to be a benefit. The role of marketing as a function and a philosophy is very important as it assists firms to uncover customer needs. Firms should monitor customers' needs and their offerings must satisfy them. In cases where there is a gap between customer needs and product offering, immediate product modifications must take place otherwise competitors may exploit this gap to gain customers loyalty.

Furthermore, winners in the intensified competitive environment are those firms who can find and sustain a differentiated advantage. Firms can provide a unique product using innovative design to create perceived value (Hambrick, 1983) and/or *“attempting through advertising prestige pricing, and market segmentation to manifest a unique image for a product or service (Miller, 1988)”* (Schul, et.al, 1995, pp. 129-142). Product innovation is a basic function for differentiating firms and they should aim to sustain product innovation advantages over time (Wong, et. al, 1994, pp. 277), investing heavily in order to find new methods (through marketing, R&D) to differentiate in order to outperform their competitors. It is very important for firms to retain their customers (Thompson, 1998, pp. 17) through sustaining the differentiated competitive advantage though their rivals will try to imitate the first innovator. Those firms that offer a more distinctive, ‘better than competitors’ product, should be able to establish brand loyalty. Customers willing to pay more for a differentiated product, are often more loyal because their purchase decision is based more on perceived quality than on price (Kling and Smith, 1995, pp. 27). These customers are loyal to firms that offer a higher quality differentiated product and loyal customers provide more revenue to firms.

Thus, differentiation must be seen in a dynamic view, because, in many markets, customer values change and even the same consumers can change behaviour

at different times. Therefore bases of differentiation also need to change. Firms should always be looking for new product characteristics that are different from their competitors because over time competitors can imitate bases of differentiation. Consequently, firms following a differentiation strategy “*may have to review continually bases of differentiation, and keep changing its strategy*” (Johnson and Scholes, 1993, pp. 213). Although, Sir Colin Marshall (H.B.R., 1995) chairman of British Airways stressed that it is hard for competitors to copy or match a competence because it is hard to build it (pp. 103). Moreover, firms must develop an intelligence system collecting all this information, regarding customers’ needs, strengths and weaknesses of their competitors, external environments, etc. The collection of this information is vital for firms to understand the market forces and adjust their offerings to the market needs.

Biemans (2001) identifies that the dual marketing concept can assist firms to more effectively adopt the principles of differentiation strategy. Biemans (2001) classify firm’s customers as business and simple, having different needs. A firm should offer different product /service versions, sales channels, prices and communication efforts in an effort to tailor its offerings to both groups of customers (see Philips case, Biemans, 2001, pp. 671). According to Biemans (2001) a firm can have significant benefits from the application of dual marketing. These benefits can be: 1) increased sales, 2) economies of scale, 3) creating synergy, and 4) better market information.

A firm can use some of the following dual marketing strategies:

- a) Different communication messages. Even the product is identical a firm can emphasise different selling points.
- b) Dual brands. This strategy can help customers to distinguish between the products offered to various consumer groups.
- c) Separate distribution channels. A firm can use different channels by offering various versions of the same product and charge different prices.

d) Separate marketing organisation. Firms separate the people serving both markets (business, simple consumers), so they can focus on one particular kind of customer. The close co-operation, interaction and co-ordination between these two departments are necessary to create synergies (Biemans, 2001, pp. 673).

Firms following a differentiation strategy can increase the customer base that they serve, directing their efforts to a broad range of customers and trying to attract different sorts of customers - different market segments. This is the strategy that the Japanese automakers adopted, because the differentiation strategy *“enables companies to satisfy the increasing demand of customers from a broad range of market segments”* (Liao and Greenfield, 1997, pp. 542). However, all this procedure may require high costs in order to develop products/services, which satisfy many customers groups. The contribution of dual marketing to this direction is decisive.

Among the marketing variables appearance and price tend to have a pivotal role in the differentiation (Wong et al., 1994, pp. 19). However, any change in product characteristics means higher costs and therefore either higher prices or lower prices. Thus, it is very difficult for those firms who adopt the differentiation strategy to also offer lower prices. The only possibility is if a firm offering a unique differentiated product achieves higher volume and higher market share, than their competitors, as this would allow costs to be minimised through economies of scale.

As with the cost leadership strategy there are important organisational arrangements and the appropriate culture that need to be established (Porter, 1980, pp. 40) in order to promote the adopted strategy. In the Professional Manager magazine (March 2002) Prof. Amin Rajan stated that in the last few years, due to intense competition, most companies have tried to imitate the winners, rather than actually producing a unique differential advantage. He goes

to suggest a number of organisational and cultural arrangements that would aid firms in actually achieving a differentiation advantage:

- ⇒ Give employees more autonomy and space,
- ⇒ Set demanding expectations that require everyone to go that proverbial 'extra mile',
- ⇒ Raise the performance level in all key activities,
- ⇒ Encourage activities like team-working, networking and reciprocity that produce exceptional results (pp. 33).

The differentiation strategy can start from imitation. Thus, in Harvard Business Review, Gabriel Szulanski and Sidney Winter of Wharton School stated that firms must duplicate not only plant and equipment, but also employee skills, practices and the performance measures that show whether the replica is working. In the later stage firms can follow a differentiation strategy and to change any part of the strategy that doesn't fit (Regout, 2002, pp. 20). However, it is not an easy task to imitate everything, especially the internal environment of a firm. Although, it is very difficult to imitate differentiation bases, is less difficult to imitate cost cutting functions.

According to Kling and Smith (1995) differentiation strategy requires a trade-off with cost position, because when a firm tries to create unique features - market research, quality materials, and customer service are necessary functions and are themselves costly (pp. 27). Therefore, a differentiation strategy requires higher costs for businesses, however "*differentiation strategy does not allow the firm to ignore costs*" because unchecked they could increase rapidly, leading to financial troubles (Porter, 1980, pp. 37).

All the above literature review lead us to the conclusion that differentiated firms place more emphasis on the marketing, sales and R&D functions than the low cost counterparts. They should use market feedback in order to design their products according to the market needs. Therefore, these firms tend to be more

market-oriented than the low cost rivals. They must not ignore customers' needs and they should place extra emphasis not to lose their differential advantage.

4.2.3.1 Differentiation Strategy and the Airline Industry

The basic functions that all airlines generally have to provide are: to get passengers to where they want to go, do it safely, go when they want to go, provide some nourishment, and let them accrue some frequent-flyer miles. Besides the above basics, customers *"increasingly want a company to desire to help them, to treat them in a personal, caring way"* (Marshall in H.B.R., 1995, pp. 104).

Whilst price plays a pivotal role as a differentiator, the uniqueness of the airline's product presents a large number of attributes that can be used for differentiation from such things as design or brand image, in how many stops serve a specific destination comparing to rivals, in technology used, in customer service, in distribution channels, and in loyalty schemes. They can also differentiate their offerings in terms of frequencies, departure times, in-flight service, pre- and after flight services, on the ground services and points served. In addition, in flight movies, fashion shows, in-flight telephones, television and video sets, gyms, casinos are some other sources of differentiation. Also, airlines can offer to leisure passengers in-flight seminars on videocassettes which might include investment strategies, tax preparation, inspirational speeches and self-improvement topics. All these can make the airlines product more attractive to the leisure market. On the other hand, carriers can offer to business travellers in-person talks or cassettes could be given on a variety of finance, marketing and management topics plus many other facilities in flight. On the ground, executive lounges, limousine transfer to/from airport, special reservation system and many others facilities can differentiate an airline to the business travellers. Thus, carriers provide significant amenities beyond basic flight service, and have invested heavily in the development of these activities in order to differentiate

themselves in the minds of flyers (Kling and Smith, 1995, pp. 30). Airlines' customers are not homogeneous and have different needs, even in the same class of service. The dual marketing concept applies in the airline industry because a carrier offers its products both to business and to economy travellers. Both groups have different needs. However, in the airline case, these groups can be extended to more, to business travellers, tourists, travellers visiting friends, religious travellers, etc. All these groups have different needs and dual marketing can assist firms to adapt their offerings to various consumers groups and approach them with different marketing strategies. The challenge for an airline is to appear, in customers' eyes, to provide a differentiated product for each individual passenger.

All the above are just a few from the large number sources of differentiation, which airlines use in order to differentiate themselves and to gain a competitive advantage. However, all these extra facilities require additional extra cost. Therefore, low cost low fares airlines would have a hard time trying to match such services whilst simultaneously keeping their low-cost emphasis.

Although, Sir Colin Marshal (1995) stressed that offering lower prices is an important incentive to increase demand, British Airways place greater emphasis on attracting passengers who are willing to pay a premium. In addition to people who fly business and first class, British Airways believes that there also are plenty of customers in the lower end of the market who are willing to pay a little more for superior service. Thus, in British Airways the dominant philosophy is whether you can offer *"something extra that others are not or cannot, some people will pay a slight premium for it"*. Therefore, airlines investing in service improvements and offering a differentiated product, can significantly increase revenues (pp. 102) attracting higher yield passengers.

In addition, Thompson (1998) points out that the reason is that firms with a differentiated product can attract all the customers segments, so low-value customers can have access to the same higher-value services as their top-tier

customers receive but at a (tiered) price. He used the airlines example, where most of the carriers offer frequent flyers programmes (FFPs), providing extra services (access to lounges, call centres, upgrades and other facilities) rewarding the higher paid customers. However all these facilities are also available to the less-profitable customers for a fee (pp. 20). Therefore, those firms should design a differentiated product which attracts many customers segments in order to increase their customer base and revenues.

Globalisation means that airlines are now more likely to be competing on a worldwide basis using global strategies, because there is a “convergence of consumer tastes” and “world markets are becoming increasingly similar” (Sammiee and Roth, 1992, pp. 6). Therefore, there are more similarities than differences across borders in patterns of consumption, use, distribution or production (Johnson and Julius, 1995, pp. 621-625). Thus, airlines can reduce costs by offering a similar product across markets that will attract more travellers. However, consumer preferences across national boundaries are still affected by “local cultures, value structures, tastes, economies, and other factors”. Airlines product offerings must also meet the different national and market local needs and preferences. Thus, international firms need to have a good understanding of the local customer needs and the environment that affects customers' behaviour (Sammiee and Roth, 1992, pp. 6) offering the right product for every market. This complex task requires the establishment of a good market feedback system to identify where adaptations may be necessary. Moreover, the appropriate product also requires appropriate marketing plans, which are adapted by organisations in order to match local market conditions.

Boettcher and Welge (1996, pp. 186-188), through a number of case studies, identify that firms operating in the international marketplace can follow global, multifocal and local (multidomestic) strategies. The emphasis of “global strategy concepts do not necessarily as such contradict the ability to meet locally differentiated customer needs and vice versa”. Sammiee and Roth (1992, pp. 6)

suggesting that airlines can offer an almost uniform product and *“marketing policies and strategies of firms would be expected to be less uniform and generally adapted to local market conditions”*.

In the airline industry, where the big-established carriers compete globally, firms try to establish strong brands with a global status, which according to Sammiee and Roth (1992) should enable them to achieve higher performance from positioning themselves differently in various markets (pp. 6). Generally, brands that present immediate meaning, clarity and simplicity have the best chance to achieve higher performance and getting people's attention. Thus, British Airways (BA) offers various brands of seats on its aeroplanes. The service in each category is different and the marketing tools used by the airline to attract passengers are also different. Thus, for passengers who travel within Europe, British Airways offers the 'Club Europe' for business class travellers and the 'Euro Traveller' for economy class. For passengers who travel long haul distances, the carrier offers the 'World Traveller' for economy and business passengers, this class is offered for passengers who use lap tops on board, the 'Club World' is for business travellers, offering a bed service and the 'First Class' is for executive/business class passengers. It is clear that the carrier's brand policy is focused mainly on differentiation and segmentation strategies.

In today's advanced technological environment, airlines can differentiate their products without substantial increases in cost. There are some differentiation bases which are not very expensive for airlines. The use of the new technology (internet, e-commerce on the ground and new technology in the in-flight service) can assist airlines in differentiating and can also reduce their costs.

Competitive forces and generally the airlines industry situation can determine the degree to which differentiation strategies can be pursued. Thus, the adopted (differentiation) strategies of a firm can vary through time. When the competition

is intense, airlines tend to adopt more differentiation strategies in order to outperform their competitors.

4.2.3.2 Measurement of Differentiation

The efficiency of a differentiation strategy can be measured mainly by yield and load factors. High yields with high load factors are the best situation for every airline and this can lead to higher revenues. However, higher load factors alone cannot lead to higher revenues. If airlines fill aeroplanes (high load factors) with low yield passengers, then the final result will be lower revenues. Airlines may present higher performance if they have lower load factors but with high yield passengers. However, those airlines that attract higher yield passengers usually have lower load factors because they charge their passengers higher prices.

Therefore, the most important issue for the established full service carriers (low-cost 'no frills' airlines are not included) which adopt differentiation strategies is to find ways to fill their aeroplanes with high yield passengers. Carriers with an attractive differentiated, market-oriented product aim to fill their aeroplanes with high yield passengers but are more likely to have lower load factors than airlines that adopt the cost leadership strategy. Thus, low cost low fares airlines operate with more than 85 per cent load factors (Easyjet, Ryanair, etc.).

The contribution of yield management is very important for carriers to achieve higher yields and higher load factors. It is a great strategic weapon, which assists carriers to increase their revenues and to better meet the increased needs of the market place. The objective of yield management is to optimise the passenger mix on each departure, consistent with management objectives. Thus, an efficient yield management should:

- Eliminate spillage of high yield traffic,
- Encourage selling up from one fare type to a higher one,

- Stimulate or accommodate incremental traffic through the judicious use of discount fares,
- Improve overbooking profile,
- Increase market share, achieving higher load factors,
- Consist a competitive tool,
- Contribute to the optimisation of service quality,

(IATA, Airline Training Services, 1996, pp. 1-11).

Finally, differentiation strategy can provide a significant competitive advantage for those firms which follow the specific strategy; although according to Fulmer and Goodwin (1975): *“All firms, in essence, follow a differentiated strategy. Only one company can differentiate itself with the lowest cost: the remaining firms in the industry must find other ways to differentiate their products”* (Turner, 1989, pp. 8). However, like the cost leadership strategy, the differentiation strategy cannot easily be copied by competitors because this strategy is built on internal strengths of a firm, which is difficult to imitate by the firm’s rivals.

4.2.4 Focus Strategy

The third strategy put forward by Porter (1980) is the focus strategy where firms focus on what they do best. Thus, firms can focus *“on a particular kind of customer, segment of the product line or geographic segment”* (Porter, 1980, pp. 38). Businesses that adopt the cost leadership and/or differentiation strategies direct their efforts (strengths) to the entire industry, while the focus strategy is based on serving a particular target very well, and its functional tactics are adapted to meet this goal. The idea on which the focus strategy is based is that a focused organisation better serves its narrow target audience than its competitors, which have a broader focus (Hyatt, 2001, pp. 13). Therefore, the focus strategy succeeds by taking advantage of an underserved niche in the market (Davidson, 2001, pp. 34). The key benefits of this approach are that firms

adopting focus strategies invest less and face lower risks than firms who serve the entire market.

Firms that follow a focus strategy can achieve their objectives following a cost leadership strategy or offering a unique product for which consumers would be willing to pay a premium (differentiation strategies) or both, within its strategic (focus) market (Porter, 1980, pp. 38-39). Consequently, these firms are in an endless effort to seek out and exploit favourable niches in the market. They are looking for "*high growth markets and protected niches in which market share could be rapidly increased*" (Turner, 1989, pp. 5-9). These are identified by assessing customers' perceptions, competitors' actions and the external environment to identify potential niche markets.

Moreover, Michael Porter (1997) argues that focused strategic positions are of three, not necessarily mutually exclusive, sorts: variety-based positions, needs-based positions, and access-based positions. Firms which follow **variety-based positions** focus their business on the variety of products and services they offer, rather than on specific customer or market segments. **Needs-based positions** are followed by those firms which focus on the needs of a particular segment of customers. The targeted customer segment will determine the range of offerings (products). According to Porter (1997), this positioning is the most common of the three and is only effective if firms are able to serve customer needs differently from its competitors. **Access-based positioning** is followed by those firms that focus on offering products and services designed to reach customers in a particular way. This is the least common positioning. Often access-based positions are related to geographical distribution of customers. Porter (1997) presents the example of Carmike, a firm that operates movie theatres in rural areas, a very different proposition from running them in a city (pp. 17-19).

Focused firms do not necessarily serve only narrowly defined niche markets. There are many focused strategic positions that cover broad markets, like Coca-

Cola which offer a well-known product/brand to the global market, whilst also occasionally adjusting to the local customers needs. The most important issue for focused firms is to do things differently. Thus, these firms target the special needs of a subset of customers, make explicit how they differentiate their product or service, and design unique business activities that support and reinforce their differentiable position (Porter, 1997, pp. 16). This strategy seems ideal for those firms that direct their efforts on a global basis, but also need to make adjustments to the local customer needs, like airlines.

There are a number of ways to find whether a firm is focused or not. If a company offers multiple brands, and cannot explain itself in a word or short phrase, its business is probably not focused (Pitelis and Taylor, 1996, pp. 53).

Porter (1980, pp. 46) identifies that the focus strategy involves a set of risks. The elimination of the cost advantages of serving a narrow target or to offset the differentiation achieved by focus, the differences in desired products or services between the focus area and the whole market narrows and the firm's competitors "*find submarkets within the strategic target and outfocus the focuser*". Added to this is the extremely competitive environment now faced by firms. This means that focus firms often need to extend their activities to other products/services or to other geographical regions in order to grow. However in doing so, these firms face the risk of losing their focus advantage.

Like the differentiation strategy, firms that follow a focused approach have to carefully monitor shifts of the competitive advantages because the market situation may change due to the intense competition and a firm can lose its focus advantage, e.g. segments may be eroded or may be further segmented by even more differentiated offerings from competitors (Johnson and Scholes, 1993, pp. 216). Therefore, it is necessary for focused firms to continually collect all the necessary market information, in order to understand the market needs within and outside their focused area (customer surveys, monitoring current and

potential groups, competitor analysis, etc.) and to respond to them, in order to maintain a competitive advantage.

Finally, focused firms should establish the appropriate 'culture and climate' which all the firms' efforts are directed to serve the chosen strategic target.

4.2.4.1 Focus Strategy and the Airline Industry

The most important customer group for the established full service airlines (except the low-cost low fares airlines) is the first/business class travellers. This group of passengers generate a significant portion of revenue for these airlines. Also, by focusing on first/business class travellers, airlines can cover the high costs that need to be invested in order to attract this group of passengers and to achieve high margins. This can take place when the airline industry is in a good situation, then the demand for first/business class service grows and airlines can offer prices higher than their costs. For the business customer group, numerous possibilities exist for airlines to attract this group of passengers, either expanding its frequent flyers programmes (FFPs) or offering other facilities, both in-flight and on the ground. Moreover, joint promotions can be used with hotels, rental car services, restaurants, convention facilities and others specialising in business travellers. Costs are higher for firms to serve this particular segment, than to serve the leisure market, however, the expected revenue can compensate airlines that focus on this group of customers.

If firms focus on the leisure market, there are many possibilities to help stimulate interest in air travel. Thus, carriers can attract more leisure travellers with co-operative agreements at major resorts. In addition, airlines might also emphasise joint promotions with such complimentary services as free traveller's cheques, reduced prices for city tours, a free night's lodging after so many paid nights, and so on. Leisure passengers are more price conscious, therefore, the expected

revenue per passenger is lower than when focusing on first/business class passenger, but so are the costs of offering the required service.

Furthermore, airlines can focus on serving specific geographical segments. Thus, some airlines place great emphasis on long haul flights (British Airways) and others on short distance flights (such as the low cost low fare carriers, and the regional airlines). Long haul flights are more costly in total for carriers but the expected revenue is much higher than serving short haul routes. Airlines can focus on serving transiting passenger traffic because they do not have a large domestic market, for example KLM, Singapore Airlines, etc.

All the above focus areas (product, customers, and geographical areas) provide significant benefits for the airlines but also significant costs. The airlines should trade off between benefits and costs in order to decide why they should serve a specific focus group. They should also consider the key risk of losing their focus advantage.

4.2.5 'Stuck In the Middle'

The final strategic position put forward by Porter (1980, pp. 41-43) is 'stuck in the middle'. This is where firms fail to follow any 'clear strategy'. He suggests that these firms are in extremely poor strategic position and have only one choice in order to survive, to move to other more attractive strategic groups following 'revolutionary changes'. If they do not do this then survival will be extremely difficult. The 'stuck in the middle' firms cannot compete on the basis of price because they face higher cost structures than cost leaders. They cannot charge premium prices because they do not offer a uniquely differentiated product, and cannot manage to be protected by a niche that buffers them from broader industry competition. These firms are almost guaranteed low profitability and, when there is a shake-out in the industry, they are likely to be the first to exit (Kling and Smith, 1995, pp. 27-28).

Kling and Smith (1995) in their study of the US airline industry, stress that 'stuck in the middle' firms are less profitable, and the effect of weak strategies become more evident as the industry matures. Furthermore, the only way for these firms to regain profitability is to downsize and focus on particular market segments that match their strengths (pp. 33). Consequently, the long-term survival of these firms is difficult and requires radical changes to take place in the firms.

Dess and Davis (1984) stressed that the reason why 'stuck in the middle' firms are characterised by a lack of a well articulated and consistent strategy is the lack of management continuity (pp. 482). In over politicised organisations (state-owned) the frequent management changes and the political interference create a culture "*in which managers are afraid to take decisions and bureaucracy stifles initiative*" (Doganis, 2001, pp. 192). Moreover, the management may not have had the time to complete the implementation of the adopted strategies.

However, there are some conditions in which 'stuck in the middle' firms have some possibilities to survive, at least in the short term. According to Davidson (2001), these firms can profit during the early growth stage of an industry (pp. 34). In addition, 'stuck in the middle' firms can be profitable if they operate within a favourable industry or an industry populated by other 'stuck in the middle' firms (pp. 34).

Dess and Davis (1984) found that the only advantage of this group is that, as the industry life cycle progress, the 'stuck in the middle' firms may actually be able to adapt to changes in the industry environment and to follow one specific strategy more readily than firms committed to one of the three generic strategies (pp. 486). In addition, David Sainsbury argues against Porter's (1980) generic strategies theory, saying that the great majority of people are interested in both quality and price and therefore a strategy should still exist that is focused absolutely on that middle range (Pitelis and Taylor, 1996, pp. 52).

Authors like Hill, 1998; Murray, 1988; Miller and Dess, 1993; also support that firms can successfully pursue multiple competitive strategies. Moreover, the findings of Wright et al. (1991) and Miller and Dess (1993) suggest that the combination of generic competitive strategies (hybrid strategies) can be more effective than singular competitive strategies. Pursuit of hybrid (combination) strategies can provide competitive advantage over rival firms and can drive those firms to higher performance. Thus, firms that achieve simultaneous pursuit of low-cost leadership and quality differentiation (one kind of differentiation suggested by Beal and Yasai-Ardekani, 2000) can yield higher performance than firms which follow a low-cost leadership or quality differentiation strategy (Beal and Yasai-Ardekani, 2000, pp. 738). Furthermore, both strategies can be adopted by firms which operate in monopoly or oligopoly, without the existence of strong competition. However, the pursuit of hybrid strategies is quite expensive task.

Porter's (1980) only concession to the multiple strategy theory is that instead of a firm adopting both a cost-leadership and a differentiation strategy, it should instead follow the focus strategy, employing both of strategies but with a specific focus. However, Porter (1980) does support that a firm can aggressively pursue all cost reduction opportunities that do not sacrifice differentiation, nor can they pursue all differentiation opportunities that are not costly (pp. 34-46).

In general, however the literature agrees that the three sources of competitive advantage (cost leadership, differentiation and focus) are mutually exclusive. Thus firms identified with at least one generic strategy outperformed firms identified as 'stuck in the middle', which are almost always found to be low profitability firms (Porter, 1980, pp. 41; Dess and Davis, 1984 pp. 480; Ahmed and Rafiq, 1992, pp. 49-57; Kling and Smith, 1995, pp. 31-33). This has also been found to be the case in the airline industry. Kling and Smith (1995) studied the implementation of Porter's generic strategies in the airline industry and support that the five carriers that follow one of the three generic strategies have

better returns than those 'stuck in the middle' firms and are in the best position to survive and to prosper (pp. 31-33).

Given that a firm can change its adopted strategies over time in response to changes in the external environment, the present study examines which of Porter's generic strategies, namely cost leadership, differentiation and focus, were implemented in Olympic Airways during the period 1990-2001. This study will also examine how they were implemented and the impact of their implementation on the airline performance. The absence of implementation of any strategy, as suggested by Porter, will lead to the conclusion that Olympic Airways is 'stuck in the middle', which in turn implies lower performance. This will be verified by analysing the carrier's performance using airline and industry data.

The first research question examined in this thesis has three parts, which are as follows:

1a) Has Olympic Airways adopted any of Porter's generic strategies during the period 1990-2001?

1b) How were they implemented?

1c) What impact did they have on performance?

4.3 Market Orientation

On the theoretical side, and more specifically in the strategic management and marketing literature, it is assumed that there is a strong relationship between market orientation and performance. In the empirical side, there are only few studies and the main ones are: Kohli and Jaworski, 1990 and 1993; Narver and Slater, 1990, 1994 and 1995; Hart and Diamantopoulos, 1993; Greenley, 1994 and 1995; Ruekert, 1992, which actually investigate the association between market orientation and performance.

All these studies about market orientation are based on Kohli and Jaworski (1990) and Narver and Slater (1990) conceptualisations. Therefore, later studies are based on the above authors theories (Hart and Diamantopoulos, 1993; Greenley, 1995; Deshpande et al., 1993; Ruekert, 1992).

The starting point of market orientation is the marketing concept and its implementation. The marketing concept supports that: 1) all the firms' functions must be customer oriented, 2) all marketing activities should be integrated, and 3) higher profitability should be the main objective of firms, not higher sales volume (Kotler, 1977).

Shapiro (1988) defined a market oriented firm as one who "*completely understands its markets and the people who decide whether to buy its products or services*" (pp. 120). Consequently, the full knowledge of the market within which a firm operates is a pre-requisite of the market orientation concept. Market orientation as a concept is therefore broader than customer knowledge, as it also requires the full understanding of firm's competitors and external environment. The way to respond to these factors determines the level of a firm's market orientation.

According to Liu (1994), the adoption of a market oriented approach can provide a significant competitive advantage, therefore firms with low market orientation may find themselves in a very vulnerable position. Furthermore, firms must avoid operating with a short term perspective and should direct their efforts to make radical changes in their strategic vision (pp. 69) by adopting the market orientation concept, which provides long term benefits.

Although there is confusion regarding what constitutes market orientation, two main approaches dominate the literature, the 'philosophical' and the 'behavioural'

approaches. A stance somewhere between these extremes is also adopted by some authors, e.g. Greenley (1994, 1995), etc.

For the 'philosophers', market oriented firms are those in which the marketing concept is the driving business philosophy. According to 'philosophers', market orientation should dominate organisational attitudes, values and beliefs, affecting a firm's overall behaviour, and its performance. 'Behaviourists' believe that it is a firm's activities that should be based on market orientation. Thus, they support that while some firms may adopt the marketing concept as a philosophy, this does not mean that they will be market oriented in their behaviour.

In the next section, the most important studies about market orientation, those of Kohli and Jaworski (1990), Jaworski and Kohli (1993) and Narver and Slater (1990) and Slater and Narver (1994, 1995), are presented. The studies by Greenley (1994 and 1995) also provide useful insights. The other studies are based on the above ones.

Kohli and Jaworski (1990) and Jaworski and Kohli (1993) studies

The two studies by Kohli and Jaworski (1990) and Jaworski and Kohli (1993), investigate the market orientation concept and its association with performance. The first study (1990) dealt with the theory construction and the second (1993) with the theory testing. They define market orientation as the organisation-wide generation, dissemination of market intelligence about customers' current and future needs across departments, and organisation-wide responsiveness to it. The 'organisation-wide' aspect of market orientation refers to the fact that close co-operation of all departments within an organisation is required to be effective.

The acquisition of information is necessary in order for organisations to understand what buyers value and the capabilities of and strategies used by competitors in serving target buyers and to act accordingly. This knowledge

provides a significant advantage to firms against its competitors, creating superior value for customers in relation to competitors' offerings. Moreover, Kohli and Jaworski (1990) pointed out that there is a positive relationship between the firm's market orientation and customer satisfaction (pp. 14). This is also found to be important by Brady and Cronin (2001), who's results suggest that firms must have an effective and efficient market information system, customer satisfaction and service quality assessments should be included in the market information system because they are functions by which firms collect customer complaints and enact service recovery efforts (pp. 248-249). This allows a firm to design and execute more efficient marketing strategies that result in more favourable customer outcomes (pp. 241). Furthermore, Kohli and Jaworski (1990), explain that market intelligence includes consideration of exogenous-environmental factors such as competition and their offerings, government regulation, technology, and other environmental forces that affect customer needs and preferences (pp. 3-4). The inclusion of 'across departments' in the definition acknowledges that horizontal communication between departments is necessary to co-ordinate people and departments to facilitate the attainment of overall organisational goals (Kohli and Jaworski, 1990, pp. 6). Effective intelligence dissemination, therefore *"provides a shared basis for concerted actions by different departments"* (Kohli and Jaworski, 1990, pp. 5).

The findings from the Jaworski and Kohli (1993) study suggest that the market orientation of a business is an important determinant of its performance. However, they also point out that certain environmental moderators can influence (i.e. increase or decrease) the strength of the relationship between market orientation and business performance. These moderators are market turbulence, technological turbulence and competitive intensity. Moreover, Jaworski and Kohli (1993) found that market orientation appears to be strongly related to business performance when overall performance is assessed using judgmental measures. On the other hand, there is no relation between market orientation and performance when market share is used to measure it (Jaworski and Kohli, 1993,

pp. 63-64). Commitment of the top managers is an essential prerequisite for market orientation and as Webster (1988, pp. 37) stressed "*customer-oriented values and beliefs are uniquely the responsibility of top management*" (Kohli and Jaworski, 1990, pp. 7).

In addition, Kohli and Jaworski (1990) and Jaworski and Kohli (1993) investigated the relationship between organisational structure and systems (centralisation, formalisation and departmentalisation) and market orientation. They found that de-centralisation appears to have a strong relationship with market orientation, it empowers employees to make decisions at lower levels of the organisation rather than concentrating decision-making in the top level (Kohli and Jaworski, 1990, pp. 10-11 and Jaworski and Kohli, 1993, pp. 64-55). The authors point out that firms with a market orientation philosophy provide a number of psychological and social benefits to employees. Employees feel pride when they work in organisations that place great emphasis on customer satisfaction and this has the result of increased job satisfaction and organisational commitment (Kohli and Jaworski, 1990; Jaworski and Kohli, 1993; Menguc, 1996, pp. 280 and 287). The amount of emphasis that top managers place on market orientation through continual reminders to employees to be sensitive and responsive to market developments, facilitates market orientation (Kohli and Jaworski, 1990, pp. 7 and Jaworski and Kohli, 1993, pp. 54-55 and pp. 64). Furthermore, the way in which the various departments interact with each other also seems to affect market orientation. However, formalisation and departmentalisation do not seem to affect market orientation, "*it would seem that the content of formal rules, rather than their mere presence, is a more important determinant of market orientation*" (Jaworski and Kohli, 1993, pp. 65).

The authors point out that interdepartmental connectedness appears to play a facilitative role to market orientation (Kohli and Jaworski, 1990, pp. 9 and Jaworski and Kohli, 1993, pp. 55-56 and pp. 64).

Narver and Slater (1990) study

According to Narver and Slater (1990), in order for organisations to achieve above normal market performance, they must create a sustainable competitive advantage. They can manage this by increasing customers benefits and/or decreasing a customer's total acquisition and use costs (pp. 21). They focus on sustainability, suggesting that market oriented businesses should continually examine the alternatives sources of competitive advantage to see how they can be most effective in creating sustainable superior value for their present and future target customers. Narver and Slater (1990) define market orientation as "*organisation culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and, thus, continuous superior performance for the business*" (pp. 21). Marketing function plays a pivotal role in market oriented companies. Marketing should have close ties with other business functions and must be systematically incorporated in a business's marketing strategy, given the multidimensional nature of creating superior value for customers (Narver and Slater, 1990, pp. 22).

In contrast to Kohli and Jaworski (1990) and Jaworski and Kohli (1993), Narver and Slater (1990) suggest that market orientation consists of three dimensions: customer orientation, competitor orientation and inter-functional co-ordination.

Customer orientation is the understanding of current and future needs of current and potential customers. Also, a firm must understand the economic and political constraints in which customers are operating (Narver and Slater, 1990, pp. 21). Voss and Voss (2000) stated that conventional marketing wisdom supports that customer orientation provides an advantage due to better understanding of its customers, which subsequently leads to enhanced customer satisfaction and higher firm performance (pp. 67). Every firm should uncover the customer's 'value equation', and should find what benefits and what costs are important in a purchase decision. Thus, firms must be able to tailor their products and services

to this equation creating real value for the consumer (Kenagy et. al., 2001, pp. 159). Consequently, firm should know everything about its current and potential customers.

Competitor oriented, is when a firm studies “*the short-term strengths and weaknesses and long-term capabilities and strategies of both the key current and the key potential competitors*” (Narver and Slater, 1990, pp. 21). This analysis must include the entire set of technologies, used by competitors, capable of satisfying the current and expected needs of a firm’s target customers (Narver and Slater, 1990, pp. 22). The understanding of competitor’s future goals, current and potential strategies are necessary actions of the competitor analysis (Porter, 1980, pp. 75). Therefore, the detailed knowledge of a firm’s competitors is a necessary condition in order to outperform them.

Inter-functional co-ordination is the co-ordinated utilisation of a firms resources in creating superior value for target customers. Therefore, a firm should orchestrate “*its entire human and other capital resources in its continuous effort to create superior value for buyers*” (Narver and Slater, 1990, pp. 22). The acquisition of market information is important and the establishment of stable partnerships is necessary for the collection and exchange of information. Organisations can gather and share information from/with customers, distributors, suppliers, alliance partners, universities and others (Slater and Narver, 1995, pp. 69-70).

However, they (Narver and Slater 1990) go on to hypothesise that market orientation is a one-dimension construct because the three behavioural components -customer orientation, competitor orientation and inter-functional co-ordination - and two decision criteria – a long term focus and a profit objective- are conceptually closely related. Thus, for a firm to achieve long-term profits, it should continually create superior value for its target customers. The assumption is that to create continuous superior value for customers, a firm must be customer oriented, competitor oriented, and inter-functionally co-ordinated. They

also argue that a market oriented firm must place the same amount of emphasis on customer orientation, competitor orientation and inter-functional co-ordination, in order to achieve the benefits that the market orientation concept provides (Narver and Slater, 1990, pp. 22-23).

The role of top management for a firm to achieve market orientation is decisive. Thus, top management team should set incentives (rewards) in order to encourage the close co-operation between functional areas, which will contribute to the creation of superior value for customers. The implementation of the facilitative leadership and decentralised organisational structure can contribute to the inter-functional co-ordination, which is prerequisite to achieve market orientation, according to Narver and Slater (1990, pp. 22).

Narver and Slater (1990, pp. 22-23) used a multi-item scale to measure each of the three components of market orientation. The sample was made up of 140 business units from organisations offering commodity and non-commodity products.

The authors (Narver and Slater, 1990) expected to find a generally positive relationship between market orientation and business profitability within all types of businesses in the sample but did not expect to find that the relationship between market orientation and profitability was the same for the three types of businesses studied (pp. 27) but was, rather depended on the industry. The findings identified a strong association between market orientation and profitability for both types of business.

Furthermore, Narver and Slater (1990) examined the effectiveness of eight situational variables on the relationship between market orientation and business profitability. These eight control variables were: buyer power, supplier power, seller concentration, ease of entry of new competitors, rate of market growth, rate of technological change, size of a business and level of costs. All eight variables

were found to moderate the relationship between market orientation and profitability.

Slater and Narver (1994) study

The second study of Slater and Narver (1994) extended the 1990 study by investigating "*whether the competitive environment influences the form and effectiveness of a business's market orientation*" (pp. 46). They looked at how market turbulence, technological turbulence, competitive hostility and market growth affect the relationship between market orientation and performance, and examined how factors such as market growth, buyer power, competitor concentration and competitor hostility lead to greater emphasis on customer analysis relative to competitor analysis, or vice versa.

The authors (Slater and Narver, 1994) did not expect to find that placing more emphasis on customer orientation than on competitor orientation or vice versa, would have a statistical significant effect on business performance. Rather, the purpose of the Slater and Narver (1994) study was to determine whether there are conditions that favour customer or competitor emphasis (pp. 48) and how these affect organisational performance. In addition, Slater and Narver (1994) pointed out that executives and managers should assess carefully the expected benefits and costs of increasing their business's market orientation. Market orientation provides long-term benefits for those firms who adopt it. On the other hand, the implementation of market orientation requires high costs (pp. 47).

Slater and Narver (1994) found that firms who invested significant resources in understanding their customers and competitors and which had all functions focused on the value-creation effort in a co-ordinated manner can achieve higher relative profitability, sales growth and new product success. They also found that there is little support for the proposition that the competitive environment influences the strength and nature of the relationship between market orientation

and performance. They did, however, identify that market orientation is more appropriate for some environmental conditions, and they stressed that market conditions are transient and, in the long run, every market will reach slow growth, high hostility, and a changing customer preferences phase, all of which mean that firms with a market orientation can flourish.

In order to measure market performance Slater and Narver (1994) used return on assets (ROA), sales growth, and new product success "*relative to all other competitors in the SBU's principal served market over the past year*" (pp. 51). On the other hand, Narver and Slater (1990) used subjective measures of performance, which have been found strong correlation with objective performance assessments (pp. 51).

Slater and Narver (1995) study

Given that the marketplace is increasingly dynamic and uncertain firms must place more emphasis on developing the appropriate internal environment by pursuing the processes of learning and behaviour change, in order to achieve higher performance. The Slater and Narver (1995) third study is focused on the contribution of an appropriate organisation structure, to an efficient market orientation. Thus, Slater and Narver (1995) stress that 'learning organisations' facilitate the development of knowledge, creating superior value for customers, which becomes the basis for competitive advantage. Thus, a market-oriented culture should be complemented by a spirit of entrepreneurship and by an appropriate organisational climate, namely, structures, processes, and incentives to produce a 'learning organisation'. However, the cultural values of market orientation are necessary, but not sufficient, for the creation of a 'learning organisation' (Slater and Narver, 1995, pp. 63). According to Brady and Cronin (2001), the creation of 'learning organisations' is a necessary precondition for firms to establish a customer orientation culture (pp. 248). Furthermore, competitors' knowledge should not be ignored and can complement a customer

orientation culture, which must also be supported by interdepartmental co-ordination.

The marketing function plays a critical role in the creation of a learning organisation and reinforces the market-oriented, entrepreneurial values that constitute the culture of the learning organisation (Slater and Narver, 1995, pp. 71).

Slater and Narver (1995) describe the processes through which organisations develop and use new knowledge to improve performance. The most important point for any business is the ability to learn faster than competitors, as this may be the only source of competitive advantage. The outward focus of firms towards customers and competitors is more efficient when the conditions within an organisation create the climate and cultures in which market oriented entrepreneurship can flourish (Slater and Narver, 1995, pp. 68). This can be achieved through maximising organisational learning on how to create superior customer value in dynamic and turbulent markets (pp. 63). The development and the establishment of the appropriate *culture* and *climate* can be seen to be the starting point of the market orientation and can become a significant competitive advantage for every firm.

According to Slater and Narver (1995) there are two ways of learning: adaptive learning and generative learning. Adaptive learning "*occurs within a set of recognised and unrecognised constraints that reflect the organisation's assumptions about its environment and itself*" (pp. 63). Thus, there are learning boundaries that limit adaptive organisational learning, "*which is usually is sequential, incremental, and focused on issues or opportunities that are within the traditional scope of the organisation's activities*" (pp. 63). They concentrate more on making functions more efficient. Generative learning encourages a firm's management to question long-held assumptions about its mission, customers, capabilities or strategy (pp. 64). Firm's management encourages

employees to unlearn traditional practices and improve their generative learning (Slater and Narver, 1995, pp. 68-69).

Moreover, Slater and Narver (1995) stress that behaviour change is very important and is the link between organisational learning and performance improvement. Firms which have a bureaucratic organisational structure and want to move to more market oriented structures, require significant behaviour change. Those firms should overcome the initial resistance and should transmit to all employees the benefits of a market orientation and should persuade them to contribute to the success of this effort (pp. 66-67). Therefore, the process of behaviour change is vital in order for an organisation to reinforce the implementation of market orientation and to establish a market oriented culture within the whole organisation.

Greenley's (1994 and 1995) studies

The two studies by Gordon Greenley (1994 and 1995) complement the two basic conceptualisations of market orientation, supported by Kohli and Jaworski (1990); and Narver and Slater (1990).

Greenley's (1994) study, investigated the impact of market orientation on business performance and how this relationship was moderated by environmental variables. The findings agreed with Kohli and Jaworski (1990), and Narver and Slater (1990) about the existence of moderators that affect the relationship between market orientation and performance. He found that relative size and relative cost were predictors of performance. However, the hypotheses that ease of market entry, customer power and competitor hostility were associated with performance were rejected. Greenley (1994) also identified that in situations of increased market turbulence and decreased technological change the greater the positive impact of market orientation on performance (pp. 3-9).

Greenley in his 1995 study criticised the previous studies (Kohli and Jaworski 1990; and Narver and Slater 1990) as they "*did not investigate the tendency for different forms of market orientation to be associated with different types of market environment*" (pp. 65). The 1995 study, examines the differences "*in the dimensions or features of market orientation that are exhibited by companies, which represents the nature or form of market orientation*" (pp. 19). The previous empirical studies (Kohli and Jaworski 1990 and Narver and Slater 1990), according to Greenley (1995), had been based on the extent or degree of market orientation of companies measured as an overall average of the consisted dimensions, and its impact on performance. Therefore, these studies did not deal with the differences in the form of market orientation.

According to Greenley (1995), the two basic conceptualisations (Kohli and Jaworski, 1990 and Narver and Slater, 1990) referred to market orientation are based on behavioural issues. The main goal of Greenley's (1995) study was to measure each dimension of market orientation (customer orientation, competitors orientation and inter-functional co-ordination – the market orientation dimensions suggested by Narver and Slater (1990)) separately, to give an indication of the form of market orientation. The average score of these dimensions then give an overall measure of the market orientation degree. Therefore, whilst firms can present the same degree of market orientation, they can place different amounts of emphasis on the different dimensions (Greenley, 1995). Therefore, a firm can adopt the same level of market orientation with its competitors but may differentiate itself by placing more or less emphasis on customer orientation, competitor orientation and inter-functional co-ordination.

A further difference was that Greenley's (1995) study targeted managing directors and CEOs, while the previous studies focused their questionnaires on the SBU level.

Greenley (1995) investigated the similarities in the form of market orientation, and found five clusters of firms (customer focus orientation, undeveloped market orientation, fragmented orientation, comprehensive market orientation and competitive focus orientation). The study used return on investment (ROI), new product success and sales growth to measure the firms' performance. When the relationship between the five clusters and performance was examined it was found that the comprehensive market orientation group is not vastly superior to the others with respect to performance. It is better than the group with an undeveloped market orientation for return on investment (ROI), and marginally better than the other groups. The competitive focus group is better than the comprehensive market orientation group, when sales growth is used to measure performance (pp. 63-65).

4.3.1 Discussion of the Market Orientation Concept

Within any industry all firms are exposed to market effects, to a similar extent (Liu, 1994, pp. 57). Those firms that are better equipped to respond to market requirements and anticipate changing conditions are expected to enjoy long-run competitive advantage and superior profitability (Day, 1994, pp. 37). However, a substantial market orientation is necessary for a business to achieve a competitive advantage (Narver and Slater, 1990, pp. 34). Market oriented firms place great emphasis on markets, customers and competitors, which are at the heart of every business activity (Greenley, 1994, pp. 1). Customers and competitors related information is necessary for market oriented firms in order to understand what customers' value and the capabilities of and strategies used by competitors in serving target customers. This information can provide the basis by which firms can create superior value for customers relative to competitors. Customer focus and competitors monitoring are the central elements of a market orientation. Although, only these two functions are not enough ingredients for efficient market orientation. Also, inter-functional co-ordination means that all firm's departmental activities are well co-ordinated and they target to deliver

superior value to customers. The establishment of an appropriate organisation culture and climate are also necessary. The market oriented culture encourages the dissemination of the market information to all departments within an organisation and firm's actions should be based on this information. It is a prerequisite that all departments within a market oriented organisation are co-operative and well co-ordinated. In addition, a market oriented strategy requires a firm to respond to market information before its competitors.

All the above presented studies (Kohli and Jaworski (1990) and Jaworski and Kohli (1993); Narver and Slater (1990) and Slater and Narver (1994, 1995) and Greenley (1994, 1995), proved that a market oriented approach can provide a competitive advantage for those firms who implement the concept, and potentially drive these firms to higher performance. This is the result that market orientation leads firms to offer those products which are different from, or better than, competitors products because these offerings are based on real customer needs (Liu, 1994, pp. 57) and a detailed monitoring of competitors products/services. Furthermore, these firms should close monitor the external environment within they operate because it influences the participants (firms, customers, competitors, etc.) operation.

It is now common practice to incorporate their preference to customer needs in mission or vision statement, like: 'Our vision is to be preferred provider of [insert product here] to our customers'. Firms use slogans in their mission statements to prove the customers importance in the firm's strategy, thus phrases as 'customer is the king' or 'we give top priority to the customer' are very common. However, all these statements alone, don't establish a customer orientation strategy. Shapiro (1988) pointed out that "*it takes a philosophy and a culture that go deep in the organization*" (pp. 123). Although, the customer must be a firm's design point, every firm should examine every interaction with a customer for its potential to deliver ideal, customer-defined value (Thompson, 1998, pp. 17-18). Koningstein and Muller (2000) stated that customer orientation should be "*part of*

a corporate philosophy or corporate culture which diffuses through all layers of the firm's hierarchy" (pp. 47). Customer orientation should influence employees' choices and should determine behaviour of the firm as a whole.

Firms should monitor and maintain a current and thorough understanding of customers needs in order to create superior value for them. The close monitoring of customers needs, can drive firms to discover potential needs and to follow a proactive role, otherwise a firm who learns of the customer's needs only when the customer identifies them, operates in a more reactive mode (Narver and Slater, 1990, pp. 27 and Menguc, 1996, pp. 279). Moreover, customer oriented firms can develop a forecasting capability that can anticipate changes in customers needs, wants, perceptions, and so forth (Menguc, 1996, pp. 279). Therefore, a firm must act pro-actively, offering those products/services which satisfy current and potential customer needs.

Koningstein and Muller (2000) stated that those firms who place great emphasis on profit maximisation and exhibit no customer orientation at all get driven out of the market by evolution. In addition, the same study shows that in a duopoly situation if one firm adopt customer orientation as a dominant strategy, the other firm is forced to do the same in order to stay competitive in the long run (pp. 48-52). In an extremely competitive environment, which most of the industries currently operate, those firms who place great emphasis on customers needs achieve competitive advantage against their competitors who place less emphasis on customer orientation. Firms should systematically study customers' needs, wants, perceptions, preferences and attitudes. The development of an appropriate information system is necessary in order for firms to acquire all information and to respond to market requirements.

However, for every firm all customers are important, but some of them are more valuable revenue-wise than others (target customers). The close monitoring of these customers' behaviours is very significant for every firm.

The relationship between firm's customers and organisation has many parameters from the simple one, that firms should offer these products that satisfy customer needs as Dean and Bowen (1995) pointed out, to more complex issues, that customers and organisations should "*share interdependencies, values, and strategies over the long term*". To attain this, according to Schneider and Bowen (1995), firms should be close to customers, fostering direct customer contact, collecting information about their needs, use customer supplied information to design and deliver products and services (Lengnick-Hall, 1996, pp. 792). Many authors (Schneider and Bowen, 1995 and Ulrich, 1989) support that it is necessary for firms not to treat customers as end users, but to build interdependent relationships with customers to increase customer commitment and loyalty (Lengnick-Hall, 1996, pp. 798). As Gronroos (1994) and Gutman (1982) support the relationship developed between customers and a firm can become an important competitive advantage (Lengnick-Hall, 1996, pp. 808) and can augment the overall competitive quality of the system (Lengnick-Hall, 1996, pp. 810). Some firms, like Beech Aircraft, believe that the more customers know about an organisation, the more likely they are to buy their products rather than competitors' products (Lengnick-Hall, 1996, pp. 808). Therefore, the most effective way for firms to develop a detailed knowledge of customers needs is to have close relationships with them (see how British Airways treat their customers below in this chapter). This relationship should be based on trust, familiarity, devotion, friendship and respect (Lengnick-Hall, 1996, pp. 795 and 808). According to Thompson (1998), customers expectations (needs) constantly evolve, the businesses should incorporate a formal, on-going Customer Value Management (CVM) business process into the management system to monitor and quickly respond to new buying behaviour drivers as they arise (pp. 21).

Customers-firm's relationship should be an endless procedure and to start before production and to finish after the use of the product/service. Therefore, understanding the current and potential needs of customers is useful from the beginning, in order for firms to design the right product, which is aligned to

customer needs. Those firms that respond better to customers requirements and have established a mutual co-operation between customers and firms should have more loyal customers.

To achieve competitive advantage through market orientation, firms should be based on a well organised internal system, which encourage continuous improvement, high productivity, teamwork and most importantly, a customer orientation (Lengnick-Hall, 1996, pp. 791). However, customer orientation must be complemented by competitor orientation. Both of these orientations should be based on an efficient organisational structure. Shapiro (1988) pointed out that all customers' information should permeate every corporate function (pp. 120), the same should happen for all information concerning firm's current and potential competitors.

Armstrong and Collopy (1996) in their study define that a firm is competitors oriented, when it collects all the necessary information concerning competitors' performance. According to this study, one third of the respondents believed that the primary purpose of a firm is to do better than its competitors. In addition, the same number of respondents agreed with the statement; that *"the best way to judge the success of a firm is by how well it does relative to its competitors"* (pp. 188). However, the only competitors performance monitoring is not enough, a full and a detailed knowledge of a firm's competitors is necessary in order to outperform them.

Porter (1980) stressed the necessity for firms to collect information about competitors 'in a systematic fashion' and not to be based on informal impressions, conjectures, and intuition. Porter (1980) pointed out that all firms must analyse all significant current and potential competitors. Thus, competitors' present and future goals, competitors assumptions about itself and about the industry and the other companies in it, their current strategy, competitors capabilities, are some dimensions which a firm should know in order to react to

the competitors actions. Furthermore, competitors stated and unstated financial goals, their attitude toward risk, their organisational and interdepartmental dynamic structure, their management background, their plans for growth, their emphasis on generic strategies must be included in the competitors intelligence system (Porter, 1980, pp. 47-74). Firms can collect intelligence data on competitors, from many sources, e.g. industry reports, annual reports, press reports, etc. Collecting field and published data can provide a comprehensive picture of competitor's situation. Furthermore, a responsible person must compile, catalogue, make an analysis and then to communicate with the strategists, who then use this data to help develop the firm's whole strategy. However, this procedure is usually beyond the capabilities of one person. A specific department must be dedicated to monitor firm's competitors in-depth. Usually, this department is part of the planning division. Moreover, all this procedure is costly and therefore more difficult for smaller firms, who do not generally have the necessary resources or staff to undertake this competitor monitoring. The collected data must be used, analysed and put in concise and usable form to top management (Porter, 1980, pp. 71-74). Although, competitors close monitoring is a costly procedure, the benefits are more and significant. In addition, the creation of a separate dedicated department in order to analyse competitors is very important for market oriented firms. The information that this department holds is vital and should be taken into great consideration in the strategy formulation-implementation process.

Studying the market, firms can distinguish the many opportunities that exist, selecting the best segments of the market to serve, and gearing up to offer superior value to the chosen customers in terms of their needs and wants (Kotler, 1977, pp. 72). Firms continually acquire, process and disseminate knowledge throughout the organisation about markets, competitors' products, technologies and business processes, an important aspect of being competitor oriented.

Market information is extremely important today where customers needs, wants and expectations are changing at an exponential rate and require equally dynamic methods to monitor and maintain an alignment between what customers value and what the business can deliver (Thompson, 1998, pp. 18). The need for a full understanding of customer needs is necessary, and firms should avoid the 'gap', i.e. the difference between what customers actually want and what management think they want, as Parasuraman et al. supported (Wright, 1998, pp. 38). Information collection can lead firms to find out if there is a difference between firm's products and customer expectations. The identification of these differences can drive firms to periodically 'refresh' their offering service, in order to meet on-time customer needs, otherwise a competitor can 'fill the gap'.

Market information should mirror the real market, must be complete and accurate, contributing to quality (Lengnick-Hall, 1996, pp. 791) and firms actions must be based on this information. Master Card has used the outside-in view, a method that is based on hearing customers' opinions regarding their interactions with the company. Thus, Master Card using this method found that many customers are interested more to have easy access to the call centres than to the interest rates. Thus, the company responding to the customer requirements, use the call centre strategy, that has essentially been defined by its customers (Thompson, 1998, pp. 21)

Market research is a necessary function in order to monitor the market (market trends, competitors, customers, etc), and to understand what actually drives customers' buying behaviour. Thereafter, the co-operation with production function is necessary in order these products which market research identifies as more appropriate to satisfy customers needs, to offer to firm's customers.

However, Kotler (1977, pp. 73) points out that the sign of the quality of information is whether management possesses recent studies of customers' perceptions, preferences and buying habits. Particularly, given that there are

managers who don't want to spend money studying the market because they argue that they know the market.

The above presented studies concerning market orientation supported that there are some external and internal variables, which influence the relationship between market orientation and performance.

Houston (1986), Kohli and Jaworski (1990) and Narver and Slater (1990) pointed out that firms should scrutinise their external environment in which they operate prior to adopting a highly market oriented organisational behaviour as the strategy of choice (Siguaw et al., 1994, pp.106). Every environment, either external or internal, has various characteristics affecting a firm's operations and that influences the strength and nature of the relationship between market orientation and performance. Firms should understand the external environment in which they operate very well. Thus, the phase in the business cycle, the level of direct competition and the competition from substitutes, the level of regulation, the globalisation, the legislation system, and so on, are some factors which affect every firm's operation. The external environment sometimes provides opportunities to which a firm must respond and threats to which a firm must overcome and this requires the full knowledge of the external environment.

The establishment of an appropriate internal environment can become a competitive advantage for every firm and is necessary in order for a market orientation strategy to flourish. Managers should give extra care when they try to change managerial attitudes to incorporate market orientation to corporate culture.

The internal environment of today's organisations is often as volatile and dynamic as the external environment. Market orientation as a firm's strategy requires a market-oriented culture. This culture reinforces the implementation of a market orientation concept and is found to have significant positive effects on

business performance. Many authors (e.g. Athanassopoulos 2000; Deshpande et al., 1993; Houston 1986; Parasuraman 1987; Shapiro 1988; Webster 1988) support that a successful organisation should have a customer oriented business culture (Brady and Cronin, 2001, pp. 241). However, competitor oriented culture should co-exist and complement the customer oriented one. Furthermore, the close co-operation of the departments within an organisation is necessary, in order for organisations to respond to 'market signals'. Moreover, Siguaw et al. (1994) supported that adopting a market oriented culture "*could be an economical decision for firms in terms of reducing costs associated with losing employees and customers*" (pp. 113). Therefore, market orientation positively influences employees and customers behaviours. However, market orientation is an expensive task, difficult to develop and maintain.

The degree to which a firm implements market orientation is based on its desired level of organisation-wide concern and responsiveness on customer needs and competitive actions. The outcome of this procedure should be the delivering of higher quality products/services than competitors, that customers really want. Consequently, the offering of a right product/service, at the right time and in the right place before competitors do, requires the detailed knowledge of customers and competitors behaviours.

All functions must be integrated towards achieving market orientation. Although the role of the marketing department is vital to the market orientation of a firm and the other departments should contribute to this effort. However, it is not easy to design the appropriate marketing organisation that reflects the characteristics and dynamics of the marketplace (Biemans, 2001, pp. 677). It is very important every function to pursue the corporate-wide goals and its own objectives which should be part of organisation ones. Furthermore, "*the employees should think about customers and the corporation as a whole, not just what is good for their own departments*" (Shapiro, 1988, pp. 123-125). Measuring the performance, each function should be measured if it achieve (contribute to) the corporate

goals. The role of top management is very important to persuade employees to pursue corporate goals, to achieve interdepartmental connectedness, avoiding conflicts between departments.

In addition, according to Shapiro (1988), for a firm to become market oriented - though this author used the term market orientation for those firms which place greater emphasis on the customer orientation than to the competitors orientation - should start from the top. Therefore, the commitment and the power of the top management is necessary (pp. 123) but not sufficient to achieve success, whilst top management establish the general principles of an adopted strategy, the participation of all employees is required in order an implemented strategy to be more effective. Hence, interdepartmental dynamics play a very important role in determining the level of market orientation of a business. Thus, interdepartmental conflict appears to reduce the effectiveness of market orientation. However, the creative use of conflict can contribute significantly to the organisational effectiveness, by finding where the problems are located and solving them. In addition, interdepartmental conflicts can generate new ideas for organisational structure and suggestions for firms' offerings improvements. Firms can overcome inter-functional conflict and isolation through effective and efficient leadership. Also, top management should use these methods of recruitment, training, evaluation and reward systems, that contribute to a firm's market orientation, such as to encourage employees to respond to the market requirements, particularly satisfying the increased customers needs. Furthermore, an effective motivation system, which encourages the co-operation between departments within an organisation, should be established. Therefore, firms should provide the resources and motivation to encourage rather than to discourage customer oriented practices (Siguaw et al., 1994, pp. 113). Baldauf and Cravens (1999) in their study which examines a sample of sales organisations located in Austria pointed out that a firm which place greater emphasis on motivation of their salespeople can have higher effectiveness (pp. 65).

The role and participation of employees is very important to achievement of corporate objectives. The study of *The American Journal of Medicine* (Kenagy et al., 2001), about the health care system in USA, suggests that firms should focus on improving financial performance through avoiding the cost-control pressures of employees which lead to dissatisfaction of consumers (pp. 158). However, firms should not ignore costs savings but these savings cannot undermine the objective for market orientation. Cost savings should take place with extra care, particularly the labour cost savings must not affect employee morale and behaviour. Furthermore, the collaboration and a meaningful dialogue among firm's management, employees and consumers is necessary in order to ensure that there is a shared understanding of the specific contribution that each add to value equation (Kenagy et al., pp. 159-160). Cardy (2001) points out that firms may adapt the customer equity concept to the internal organisational environment, customer equity could be relabelled employee equity. The three facets of customer equity: value equity, brand equity, and retention equity can adapt to become employee equity (pp. 12-13).

Therefore, market orientation thinking should be transmitted from the organisation to employees and must be developed within an organisation, beginning from top levels executives. This requires an agreement of orientations between the firm and their employees in order to avoid role conflict (Siguaw et al., 1994 and Menguc, 1996, pp. 279). Employees, as Webster (1991) supports, from top level executives to operational-level workers, should have the same or consistent attitudes toward marketing orientation of firms (in Siguaw et al., 1994, pp. 106). This improves the likelihood that all firm's members will work towards achieving common goals, i.e. customer satisfaction, offering a better product/service than competitors.

The participation of those employees who will implement the strategy, into strategy formulation-implementation process, is necessary. In addition, employees should be focused on a firms long term benefits, not just short term

gains. The role of labour unions in this procedure is significant because usually they direct employee actions, and their co-operation with firm's management is necessary.

The role of the frontline employees is also, very important in the market oriented organisations. Their interactions with customers largely effect consumer's perceptions of their service experience. Internal service quality and employee satisfaction assessment have an important contribution to firms becoming more market oriented. However, dissatisfied employees can slow down change and prevent an organisation from getting ahead and achieving a competitive advantage.

Employee satisfaction can lead to increased employee retention and productivity. A satisfied employee can offer a higher service to customers than less satisfied employees, increasing customer satisfaction, customer retention, revenue growth and profitability. Customer satisfaction is affected by the performance of everyone within an organisation. In addition, if a product or service satisfies the customers needs, then it is reasonable to expect customers to use this product or service (customer retention) again. To increase the generating value, it is necessary for firms to identify and better understand these interdependencies and to view all the partners (management-employees-consumers) as collaborators rather than adversaries (Kenagy et al., 2001, pp. 160). The detailed knowledge of the chain relationship among management-employees-consumers can be beneficial for firms because can understand of where the benefits flow, where the costs are incurred, and where any imbalances exist so that they can be corrected (Kenagy et al., 2001, pp. 161).

The following figure 4.2 depicts the linkage between employee satisfaction, loyalty and productivity, and how this influences customers' satisfaction and loyalty and how all these lead to increased profitability.

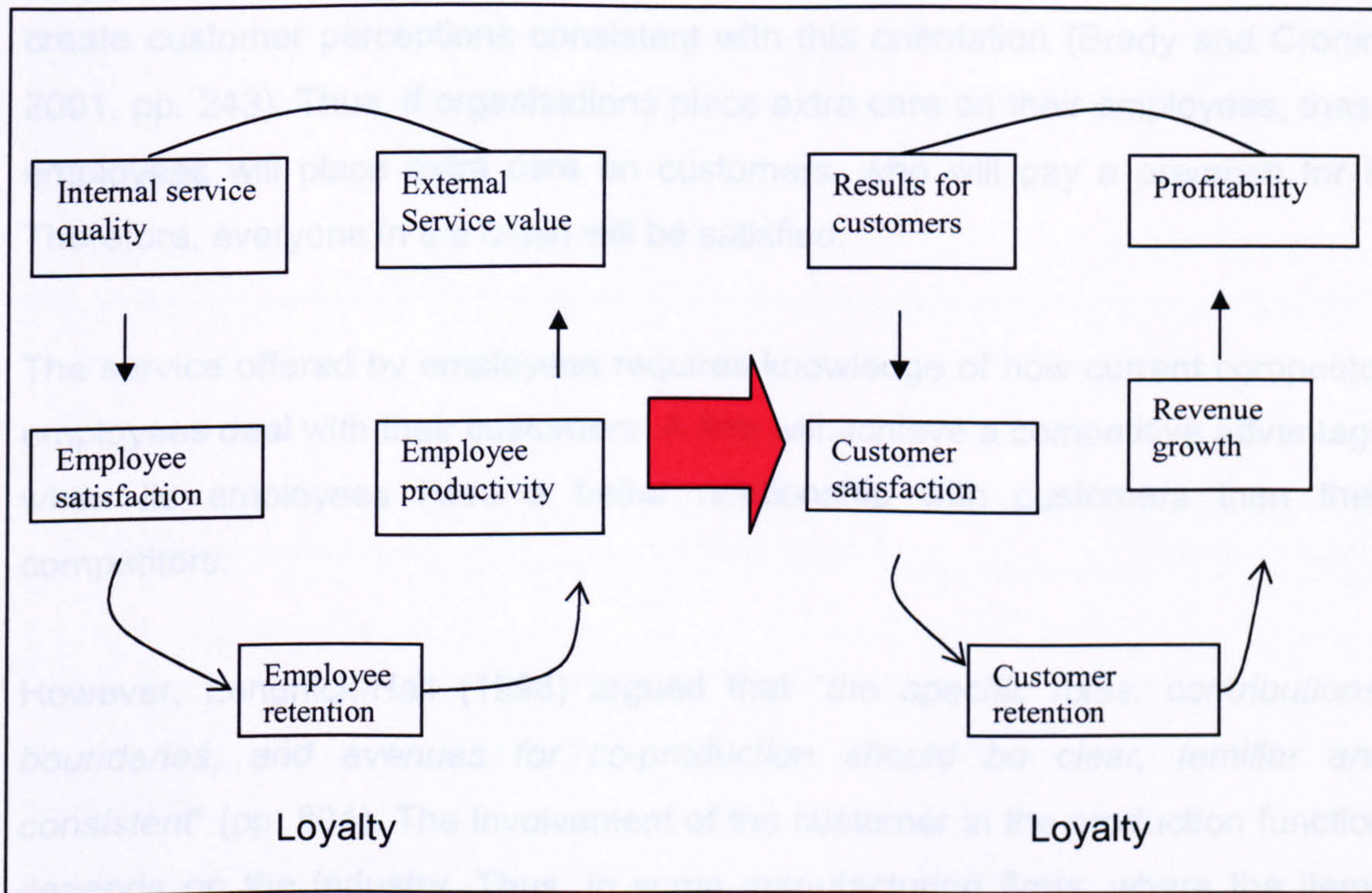


Figure 4.2 The relationship between employees, customers and profitability (IATA, Airline Training Services, Section 9.1, 1996, pp. 4)

In addition, the results of the Menguc (1996) replication study provide strong evidence that the organisational environment positively affects job satisfaction and organisational commitment and reduces role stress (pp. 286).

According to Siguaw et al. (1994), the sales force should play a significant role in the market orientation of a firm (pp. 106-107). The sales force is an important source for improving organisational effectiveness (Baldauf and Cravens, 1999, pp. 63) and an important source of information because they are in daily contact with the market. Moreover, those firms that adopt a market orientation philosophy provide important support to their sales people. However, every function within an organisation cannot deviate from a firm's adopted orientation, especially those employees who are in daily contact with the market.

According to Beatty's (1988, pp. 409) study 'people-oriented' organisations facilitate employee behaviours to become more customer oriented, which, in turn, create customer perceptions consistent with this orientation (Brady and Cronin, 2001, pp. 243). Thus, if organisations place extra care on their employees, these employees will place extra care on customers, who will pay a premium for it. Therefore, everyone in the chain will be satisfied.

The service offered by employees requires knowledge of how current competitor employees deal with their customers. A firm will achieve a competitive advantage when its employees have a better relationship with customers than their competitors.

However, Lengnick-Hall (1996) argued that "*the specific roles, contributions, boundaries, and avenues for co-production should be clear, familiar and consistent*" (pp. 804). The involvement of the customer in the production function depends on the industry. Thus, in some manufacturing firms, where the items produced are expensive, customers participation in product design is necessary. However, every industry can use customer feedback in order to offer them what they need. In addition, the knowledge of how competitors deal with this procedure is also useful, in order to offer something different and better.

The American's Journal of Medicine (Kenagy et al., 2001) study about the health care system in USA, suggests that it is very important that the interrelationship between shareholders, employees, and customers is based on mutual benefits (pp. 158-162). This allows management and employees to have open communication with consumers, to hear their complaints and to offer them a higher quality product and/or service, according to their requirements. Therefore, all partners must work closely together to expand their capability to better understand what constitutes value for everyone and to define the role that each plays in delivering it (Kenagy et al., 2001, pp. 161-162). Shareholders need to understand the necessity of investments that produce a long-term payback

(Marshall in H.B.R., 1995, pp. 107-108). Employees must understand that in order to achieve better paybacks they need to offer an appropriate level of customer service. The close relationship between the three parts is necessary, in order to achieve mutual benefits and for firm to achieve a significant competitive advantage.



Figure 4.3 The Interrelationship between Shareholders, Employees and Customers

Therefore, this exchange of information provides mutual benefits for customers and firms. Customers will buy a product/service which satisfies their requirements. Firms may also obtain significant benefits because they can improve their products/services and they can increase and retain their customer base. Those firms that establish a better relationship with customers and have more accurate and on-time information will be better placed to achieve a sustainable competitive advantage over their competitors.

Entrepreneurial cultures that encourage risk taking, proactiveness, receptivity to innovation and active resistance to bureaucracy are important traits and reinforce the implementation of entrepreneurship and innovation. According to Hurley et al. (1998), higher levels of innovativeness are associated with cultures that emphasise learning, development and participative decision making (pp. 42).

Innovation is a necessary condition of market orientation. Thus, firms, in order to offer products that are better than those of competitors, should focus on innovation (Liu, 1994, pp. 58). Therefore, organisations should create a new framework that will reinforce creativity and risk taking.

To create innovative product is a high risky activity, thus successful innovators frequently work intensively with lead customers, undertake numerous low-cost market experiments or continually experiment through ongoing quality or cost reduction programmes.

Furthermore, facilitative leadership encourages individuals to break through learning boundaries, motivate them to want to learn and to do more than was expected of them. Provide individuals freedom to take decisions with less interference from top management. They establish their own in-house 'universities' to promote a learning organisation. Moreover, they also encourage cross-functional transfers that force employees to exchange their knowledge with their colleagues and to improve their learning. They keep their employees informed about the company's overall performance, business trends and competitors activities. A decentralised organic form, with fluid and ambiguous job responsibilities and extensive lateral communication processes, provides freedom and incentives to the firm's employees. The high frequency and informality in communication patterns are necessary in high uncertain environmental conditions. Also, cross-unit committees, integrator roles, shared data bases, and matrix bases are some of the liaison devices which organisations must use. Moreover, temporary teams can be used for a wide range of activities, including new product development, strategic assessments, and formation of new management processes. The use of information technology can play important role for the information dissemination.

Hong Liu (1994) stressed that in firms with strong corporate control the level of market orientation is less. Thus, there is a tendency for them to avoid risk and

“management thinking may become less responsive to opportunities and threats as they arise” (pp. 59). On the other hand, decentralised strategic planning is vital for the unstable and unpredictable situations, with top managers giving the general guidance and task-oriented planning teams dealing with planning. All these procedures are lead by a strong understanding of the market that guides the business' competitive advantage efforts. Also, top management must have the ability to integrate the decisions generated by the subsystems (Slater and Narver, 1995, pp. 70-71). Therefore, a market oriented firm should establish a decentralised organisational structure, which encourages freedom within the organisation. However, this freedom must not ignore that all functions must pursue the same orientation, as it defined by the top management.

Most of the studies use sales growth and new product development to measure the impact of market orientation (Slater and Narver, 1994; Greenley 1995). Hong Liu (1994) measure market orientation using a number of key marketing related activities, such as new product development, market segmentation, co-ordination of business activities, marketing planning and marketing research. Thus, he found that a market oriented firm create more new products, enter to more market segments, targets better market groups, co-ordinates its business activities, formulates a more detailed marketing plan and spend more to marketing research (pp. 62).

Hong Liu (1994, pp. 68) mentioned that there are some constraints in the market orientation, which can limit the implementation of the concept. These constraints are:

- 1) Time constraints. Many firms today suffer from the lack of long-term vision, and are dominated by existing business operations.
- 2) Technological constraints. The market orientation requires the assistance of the new technology, which means higher costs. The implementation of market orientation may mean radical changes in the production methods. These changes might mean the interruption to existing production procedure and

incur enormous costs. This problem may take place mainly in large and extra-large firms.

- 3) Low margins. The market orientation may offer low margins especially in the beginning of its implementation. Hong Liu (1994) pointed out that market orientation may lead to low profitability, if market orientation measured by the new product development, thus at the early stage of the life cycle, margins from the introduction of the new products may be low.
- 4) Difficulty in co-ordination especially for large and extra large firms.
- 5) May not be the best approach in the specific time.
- 6) Requires the knowledge of market orientation.

However, the implementation of market orientation can offer significant benefits for those firms that adopted, and it offering products and services which satisfy customers needs better than their competitors done. These firms may achieve significant competitive advantage.

4.3.2 Market Orientation and the Airline Industry

The introduction of the deregulation in the airline industry in the 1980s, led carriers to adopt more market oriented practices in order to face the intense competition. Hong Liu (1994) mentioned that in extremely competitive environment, firms often adopt the market orientation concept (pp. 59) in order to achieve a competitive advantage.

The airline industry is very competitive. Airlines must be informed concerning customer requirements, competitor activities, and all this information should be disseminated internally to all functions in order to respond to them, offering competitive products according to continually market requirements and finally achieving competitive advantage.

Nowadays, airlines to respond to the increased market requirements should offer products that match or are above customer expectations. Those firms who

achieve it, will gain significant advantage, as can be seen by IATA (Airline Training Services, Section 2.1, 1996, pp. 5).

IATA (1996) gives an evolution of the term 'service'.

Before:	"Service is anything you get free"
Now:	"Service is when what you get matches your expectations"
Tomorrow:	"Service is anything you get above your expectations"

Thus, airlines should offer this level of service that satisfies current and potential customer needs.

According to Sir Colin Marshall (in H.B.R., 1995) chairman of British Airways, most of the major American carriers seem to place more emphasis on lower costs and lower prices and ignore what the market really wants. However, airlines should be focused on real customer needs and should be more innovative and creative (pp. 102-103). In addition, they must scrutinise competitors' offerings in order to offer a unique product, which better satisfies customers' needs.

Airlines can collect all this information from a number of sources: Secondary data, can be gathered from internal sources, e.g. airlines booking data, fare type analysis etc, and from external sources e.g. data from international organisations such as IATA, ICAO, AEA, etc, from government sources, airport authorities, consultancy reports etc. Primary data can be collected via market research (IATA, Airline Training Services, Section 12.1, 1996, pp. 3). Research organisations can provide information concerning the industry in general as well as more specific information on firm's competitors. The exchange of information should provide information concerning customer expectations, competitor performance, competitor offerings and the external environment. All these procedures can increase the overall quality of the production process and its outcomes (Lengnick-Hall, 1996, pp. 811). All collected information must be

processed and disseminated to all functions within the organisation to enable an effective response.

The contribution of market research to market orientation is very significant. The IATA (1996, pp. 1-2) identifies that, by using market research, airlines can collect the following information about:

- Examining market opportunities,
- New product acceptance and potential e.g. routes, aircraft, service levels,
- Testing existing products e.g. schedules, meals, seats, etc.,
- Competitive product studies,
- Measurement of market potential i.e. traffic forecasts,
- Market share analysis,
- Determination of market characteristics e.g. size, age,
- Route or area sales analysis,
- Advertising effectiveness research,
- SWOT competitors analysis.

The following example from British Airways is indicative of how monitoring customer's requirements and competitors actions can provide useful insights into the design of the airline's strategy.

According to Marshall (in H.B.R., 1995), customer groups can be continually asked to judge the service offered. Data-base marketing techniques are used to monitor customers and competitors behaviour. British Airways use these sophisticated techniques to monitor and retain the most 'valuable customers'. This may explain why the firm's advertising spending is proportionately smaller than that of its competitors. The purpose of these techniques is to monitor "*how recently and how frequently customers have flown with us for business and for leisure, we track their broader purchasing behaviour, lifestyles, their ability to influence other people's purchasing decisions, and their value needs*" (pp. 104-

105). Based on this important information, British Airways can then design and improve services according to the requirements that customer's value.

In addition, managers can also fly with competitors aeroplanes and collect useful information about their offered services, both in-flight and on the ground. This feedback can help carriers improve their service offering. Furthermore, high-level executives should visit important customers, to see them using their products or services (Shapiro, 1988, pp. 121) and to hear customer complaints and suggestions. Conducting customer forums can assist firms to gather information regarding how customers see the firms offerings, how to improve their current products and how to develop new products over the longer term. Survey cards can also be given to passengers who have just finished their flights to comment on the firm's service quality (Marshall in H.B.R., 1995, pp. 107-108). These customer satisfaction surveys have been designed to monitor customers' opinion, to discover the level of customers' satisfaction and to measure it. This can provide useful information to firms on how to adjust their services to the customers needs. However, Thompson (1998) supports that this method of information collection has *"little return to the company, unless they [companies] are tightly linked to knowledge of what customers currently and potentially value, which will drive their buying behaviour and loyalty"* (pp. 18).

The customer relations department is very important for every airline because it provides a source of information that can assist a carrier to improve its offering service in order to increase customer satisfaction. The objective of an efficient customer relations department is to use and disseminate all acquired information more effectively in order to improve the total quality of the offered service. Furthermore, meetings of the customer relations department with 'internal customers' – firm's employees, who recently travelled, can provide useful information. The customer relations department may gather data about customer complaints, suggestions and compliments (Marshall in H.B.R., 1995, pp. 107-

108). The role of the customer relations department is critical for a market oriented firm.

In the article 'Championing the Customer' by Charles R. Weiser (1995, pp. 8-11), the author explains how the British Airways customer relations is organised. It identifies that a customer relations department should:

- a) not to insulate the company from unhappy customers,
- b) to act autonomous, and to cut the administrative steps,
- c) to conduct extended analysis of customer data,
- d) to disseminate all information,
- e) to carefully hear dissatisfied customers,
- f) to be easily accessible,
- g) top management to measure performance not with the quantity but with the quality of answers to the customer complaints,
- h) to act quickly.

As identified in literature customer retention is a main objective for every firm. According to the British Airways data, for every UK £1 invested in customer retention efforts, the company receives UK £2 back. Also, those retained customers then gave British Airways more of their business and promoted it to others (Weiser, 1995, pp. 13).

In addition, it is very interesting how British Airways monitors its performance and how this becomes a valuable source of feedback. The carrier created its market place performance unit in 1983. This unit monitors 350 measures of performance, such as aircraft cleanliness, punctuality, technical defects on aircraft, customer's opinions on the company's check-in performance, the time it takes for a customer to get through when telephoning a reservations agent, customer satisfaction with in-flight and ground services, and the number of involuntary down grades that have occurred in a given period of time. This unit

also monitors competitors' performance, to track strengths and weaknesses of competitors (Marshall in H.B.R., 1995, pp. 108-109).

This market information is important for airlines for making efficient strategic decisions. Some strategic activities undertaken by airlines are presented below.

- ⇒ Regarding route/network development strategies, airlines can exploit the opportunities to enter in new markets and launch new services or routes. The selection of a 'hubbing' method² or point-to-point flights can be based on market information.
- ⇒ Airlines can focus on short-haul or long-haul routes, and pursue these goals through alliances and code-sharing. Thus, British Airways expanded inside Europe through associate airlines, and Lufthansa is more dependent on domestic feed to its Frankfurt hub. Airlines need market information before they can take these important decisions.
- ⇒ The increased competition amongst carriers from all areas has encouraged them to offer more distinct, market oriented products. Airlines such as British Airways have a clearer market segmentation policy with products such as Club Europe, aiming at the growing number of European business passengers. Also, Lufthansa have focused on domestic services, adding extra domestic flights, faster check-in and a simpler fare structure.
- ⇒ Other product developments regarding branding, frequent flyer programmes (FFPs), in-flight entertainment, franchising, on-ground services, such as faster and more convenient check-in facilities, and innovations introduced by low cost no-frills airlines have been based on market information. An efficient information system can assist firms in deciding about innovations concerning pricing, use of travel agents or direct sales or both, and the choice of offering a standard product or responding to cultural differences (multifocal strategy).
- ⇒ The creation of a competitor monitoring department can assist airlines to monitor competitors actions and respond to them more quickly. This

² 'Hubbing' method: Airlines carry passengers to 'their airports-bases' from various destinations, they concentrate high volume of passengers there and then carry them (transit passengers) to other destinations. Some hubs are London Heathrow for British Airways, Schiphol Amsterdam Airport for KLM and so on.

quick response can provides a competitive advantage and is as important as a quick response to customers needs (IATA, 1996, pp. 11-14).

All the above are very useful ways by which firms can collect valuable information and opinions. Based on this information airlines can design their offered service on the ground, their frequent flyers programmes (FFPs), meals and drinks on-board, in flight-entertainment, cabin attendants appearance, advertising campaigns and so on. However, the acquisition of this information will be more effective whether it is along with an efficient organisational structure. This structure should facilitate the quick response on market signals. Thus, by getting better at cross-functional management, an airline could achieve a competitive advantage and significantly contribute to the bottom-line (Pompeo, 2001).

The organisational structure of an airline is the actual framework within which the resources of the airline – labour, capital, and equipment – are grouped to produce the desired output, the airline service (Thompson and Strickland, 1990, pp. 220). Therefore, the organisational structure is a microcosm with its own culture, values, ethics, mission and objectives, divisions, interrelationships, and tasks. Big full service airlines have complex structures with many divisions. However, the increased 'compartmentalisation' of an organisation leads to ineffective and inflexible structures. Firms are trying to reduce their organisational levels and flatten the company, in order to get closer both to customers and employees. Low cost airlines tend to have simpler and leaner organisational structures. Some of the ideas of these structures have been adopted by full service carriers (Doganis, 2001).

The volatile external environment dictates a continuous reconsideration of the structure, along with the interrelationships that exist between the different divisions and the various organisational levels. In addition, the development of an efficient monitoring and reward structure will guarantee the effective

implementation and accomplishment of the strategy. Motivational practices should aim to inspire employees to do their best and then reward them for good performance. Training is the key success factor for an airline and should be aimed at making the employees a more integral part of the company (Doganis, 2001).

Also, every employee who interacts with customers should listen to their requirements and should be able to address issues that arise immediately - employees must *“respond to customers on the spot – before a customer writes a letter or makes a phone call”* (Marshall in H.B.R., 1995, pp. 109).

According to Marshall (in H.B.R., 1995), *“the quality and value of the product are determined to a great extent by the people delivering the service”* (pp. 110). As far the airline industry is concerned, the typical passenger is in contact with 5-6 airlines employees, including reservation calls, ticket-counter, check-in, information, and cabin crew but only for very brief periods, may be in all 10-15 minutes (IATA, Airline Training Services, Section 3.1, 1996, pp. 2). Consequently, employees can become an important competitive advantage for a firm that is extremely difficult for others to imitate. The interactions of firm's employees with customers are very important and contribute significantly to the success of a market orientation.

The considerable strength of the unions can create problems for the airlines management. However, it is a joint responsibility on the part of both unions and management to reach agreements that will enable the airline to efficiently compete against the other airlines. Airlines can motivate their staff to 'go the extra mile' by offering them a part of the company. Through this, management seeks deep, long-term concessions on wages and work rules, whilst employees want job security, stock, and seats on the boards of directors (Dempsey and Gessel, 1997, pp. 390-392). If unions can be persuaded to co-operate with the

airlines management they can both achieve mutual benefits and can assist the carrier to achieve higher performance.

4.3.3 Summary of Market Orientation

The above literature review, concerning market orientation and its implementation in airlines business, shows that market orientation can provide significant benefits for airlines.

However, the criticism identified that, including the fact models and empirical findings developed using US data may not be valid in other environments (countries), suggest that these models should be further researched in other contexts order to demonstrate their applicability in different industries and under different environmental conditions (Menguc, 1996, pp. 278).

Most of the studies presented support that market orientation has a positive affect on business performance (Kohli and Jaworski, 1990, 1992; Hong Liu, 1994, pp. 60; Slater and Narver 1990, 1994) irrespective of the environment in which firms operate. However, they do stress that there are some internal and external variables that moderate the relationship between market orientation and performance. For example, Slater and Narver (1994) stress that the existence of market turbulence, technological turbulence, competitive hostility and market growth moderate the relationship between market orientation and performance (pp.46-52).

Identifying the impact of market orientation adopted on performance will provide important information for determining future strategy. Therefore, the present study examines the adoption of market orientation at Olympic Airways, focusing on customer orientation, competitor orientation and inter-functional co-ordination and the impact of the market orientation on performance. This is a particularly interesting period for studying this relationship given the significant market changes and fierce competition that has occurred. It will, therefore allow some

assessment of the impact of potential moderating variables on the relationship between market orientation and performance.

The second research question which is examined in this thesis is:

“Is there a link between market orientation and performance?”

The market orientation dimensions examined by this question will be those proposed by Narver and Slater (1990), namely customer orientation, competitor orientation and inter-functional co-ordination. Within this framework, it will be examined whether Olympic Airways has adopted the market orientation concept, whether this orientation changed over the time period and, how this has affected its performance during the examined period 1990-2001.

4.4 Combination of Porter’s Generic Strategies and Market Orientation

Organisations that formulate and implement any of Porter’s generic strategies or a market orientation should establish the appropriate internal environment in order to support the adopted strategy. As has been identified in the literature the external environment also influences the choice of the strategy adopted. In terms of implementation, Noble (1999), identifies that in order to be effective when implementing strategies, organisations should develop clear goal-setting procedures tied to their corporate vision. These goals must then be adjusted based on changes in strategy or environmental conditions. The appropriate combination of setting the right goals, having the support of a right organisational structure, together with the right leadership, communications and incentives system can contribute significantly to the success of the implemented strategy. All the above must be directed to the achievement of organisational objectives.

The cost leadership strategy, described earlier in this chapter, requires internal efficiencies based on economies of scale, volume and scope, which results in cost reductions in such activities as R&D, production, service, salesforce and advertising. The production function plays a central role in these firms. The role of marketing and sales is to sell what is produced. The main aim of these firms is to produce lower cost products and to offer them at lower prices. The key question, however, is whether or not these products are what customers really want. According to Thompson (1998), firms wishing to cut their costs should identify and fill only their customers' basic, must-have needs. They must increase their profitability by following low-cost processes that do not deliver expensive, non-essential customer services.

Firms that follow a differentiation strategy tend to focus more externally and less on internal parameters to produce a product/service that satisfies more than the basic needs of the customer. The key is to provide higher value (and therefore usually at higher cost) services to targeted higher value customers. Critical issue for a differentiation strategy therefore, is the understanding of current and potential customer needs and values (Johnson and Scholes, 1993, pp. 217) and of competitors (strengths, weaknesses, etc.). This market knowledge is necessary if a firm wants to offer a unique, differentiated product that is attractive to customers.

Porter (1980) points out that successful implementation of cost leadership and differentiation competitive strategies require different set of skills. Thus, process engineering skills are required for successful implementation of a low cost strategy and marketing and product engineering skills are required for successful implementation of a differentiation strategy (pp. 40-41). Furthermore, Beal and Yasai-Ardekani (2000) point out that superior performance can be achieved when a manager's specific functional expertise is aligned with firm strategies. Thus, managerial resources and capabilities may only be valuable if they match the strategic orientation of a firm. The results of the Beal and Yasai-Ardekani

(2000) study suggest that engineering expertise is more important than accounting expertise to successfully implement a low cost leadership strategy. On the other hand, the study suggests that greater R&D (required for innovation differentiation) and engineering expertise may be required to successfully implement the different types of differentiation strategy (quality differentiation and service differentiation) (pp. 736-758). Consequently, according to Beal and Yasai-Ardekani (2000), engineering expertise is a key for all strategies.

According to Narver and Slater (1990, pp. 26), firms that follow a differentiation strategy give an external emphasis and present stronger market orientation than low cost counterparts. This is because those firms who offer lower prices, hope to attract that more customers with their lower prices and therefore do not invest significant amounts on monitoring and responding to customer needs and competitors actions. Firms following a differentiation strategy closely monitor their customer needs and values and their competitors and therefore have a close relationship with market orientation (Narver and Slater, 1990, pp. 26). Generally, the relationship between differentiation, market orientation and performance is expected to be positive.

However, the main objective for cost leaders is to offer a product/service much cheaper than their competitors. Thus, it is important for cost leaders to monitor competitors' prices, cost structure, production processes, and the technology they use in order to outperform their competitors. Therefore, the main task for every cost leader is to understand "*the short-term strengths and weaknesses and long-term capabilities and strategies of both the key current and the key potential competitors*" (Narver and Slater, 1990, pp. 21-22).

On the other hand, firms that follow a differentiation strategy seem to be more customer oriented. In order to offer a differentiated product firms must know very well customer needs and competitors offerings. Their main objective is to understand current and potential customer needs, creating superior value for

them continually. In addition, they are interested in offering services not to increase the cost rapidly, because then they will offer expensive unattractive products for customers. Also, the understanding of the economic and political constraints which customers face is necessary. Moreover, the close monitoring of competitors' offerings, their strengths and weaknesses and everything concerning competitors' firms and offerings should also take place in order to offer something unique.

All the above prove that the examination of the relationship between Porter's generic strategies and market orientation dimensions will provide useful insights into the study.

The third research question which is examined in this thesis is:
“Is there a link between Porter's generic strategies and market orientation within the case example of Olympic Airways?” The main two Porter's generic strategies, cost leadership and differentiation, will be examined in relation with the three market orientation dimensions, customer orientation, competitor orientation and inter-functional co-ordination. The nature of the relationship of the above will be examined by studying Olympic Airways development in the examined period 1990-2001.

The previous empirical studies (Narver and Slater 1990; Slater and Narver (1994); Kohli and Jaworski (1990); Jaworski and Kohli (1993) and Greenley (1994) stress that there are some external environment variables which moderate the impact of market orientation on performance. There are also some external factors that influence the effectiveness of the Porter's generic strategies. Consequently, it is also expected that there are some environmental conditions that will affect the relationship between Porter's generic strategies and market orientation dimensions.

Narver and Slater (1990, pp. 28) stress that there are cases (commodity businesses) in which firms with lower market orientation presents satisfactory levels of profitability. The authors explain this phenomenon by suggesting that less market oriented firms, may be very consistent and efficient in what they do due to their internal orientation, allowing them to achieve acceptable performance. Moreover, there are conditions that facilitate the implementation of Porter generic strategies. Therefore, the existence of some conditions can enforce the adoption of a specific strategy.

Another viewpoint put forward by Greenley (1994) is that market orientation may not be beneficial in the short-term, but can be in the long-term, when the conditions (in the external environment) will have changed (pp. 10).

Greenley (1994) also suggests that firm size in relation to the size of the main competitors seems to affect the market orientation and performance relationship. Thus, relative size is the only variable that is associated with sales growth, new product success and return on investment (ROI) (pp. 7). The same moderators can affect the Porter's generic strategies. Furthermore, firm's size, external events, market growth, the level of competition within an industry, the competition from substitutes, may affect the relationship between Porter's generic strategies and market orientation. All these moderators are relevant to the present study, existed in the airline industry, particularly given the length of the period examined by this study. Therefore, it is important to analyse how these moderators affect the relationship between Porter's generic strategies and market orientation.

Therefore, the fourth research question, examined by the thesis is:

“Is the relationship between Porter’s generic strategies and market orientation moderated by external factors within the case example of Olympic Airways?” In the case of Olympic Airways, have external factors moderated the relationship between Porter’s generic strategies and market orientation during the period under study?

Chapter 5

Methodology Design

Methodology is concerned with developing appropriate tools in order to empirically test the research questions and hypotheses proposed.

5.1 Introduction

The research method utilized for the present thesis is a case study employing both quantitative and qualitative data in order to interpret and understand the subject. A single case is examined in-depth. By examining a single case a deeper understanding of the case can take place. The detailed and in-depth description of the examined case provide, to reader and to researcher, the ability to understand the “*empirical foundations of the theory*” (Hamel et al., 1993, pp. 33). Given the depth of study, the choice of the case is very important for the quality of the study, in that its uniqueness should produce interesting results.

The present study examines the strategies adopted by Olympic Airways, for the 1990-2001 period, and their implications for performance. It is envisaged that this study will not only contribute to decision making procedure within Olympic Airways but will also provide recommendations for generic learning on strategy and inform potential recommendations.

5.2 The Case Study Method

Authors refer to ‘case studies’ under the interpretation approach for achieving meaning for their studied subject.

Case studies are used extensively in social sciences and also are frequently a method of investigating events in thesis and dissertation research. It is also used

in “*practice-oriented fields such as urban planning, public administration, public policy, management sciences, and education*” (Yin, 1984, pp. 10). Furthermore, case studies are the preferable research tool when the researcher is trying to find answers to ‘when’ and ‘why’ questions and he “*has little control over events, and when the focus is on a contemporary phenomenon within some real life context*” (Yin, 1984, pp. 13). Moreover, case study tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result (Schramm, 1971 in Yin, 1984, pp. 22-23). However, Stake (1994) points out that case studies are a choice of subjects to be studied and not a methodological choice (pp. 51). In addition, he (1995) defines a case study as “*the study of the particularity and complexity of a single case, coming to understand its activity within important circumstances*” (pp. xi). Hamel et al. (1993) characterise case studies, like any other qualitative method, by three key words: describing, understanding and explaining (pp. 39). While Yin (1984) pointed out that case studies are “*verbal reports and are used in order to understand complex individual, organisational, social and political phenomena*” (pp. 14). Therefore, the literature suggests that the case study method is ideal to examine the strategic behaviour of a firm, for a period of time. The case study method can shed light on the firm’s adopted strategies, explaining why they were adopted, how some moderators impact on their effectiveness and how they affect the firm’s performance.

It is very important for the overall quality of the study that the researcher directly contacts those firms that present the examined characteristics (policies-strategies that interest the researcher) in order to explore the phenomena, to explain, to describe and finally to understand them (Yin, 1984, pp. 23-25). Therefore, the researcher should select the case to be examined with extra care because this contributes significantly to the overall quality of the study.

The main disadvantage of case studies is that they are highly dependent on the skills and sensitivities of the researcher. Therefore, an experienced and able

researcher may achieve higher quality case studies than a less experienced and less able researcher. In addition, Hamel, Dufour and Fortin (1993, pp. 31) identify two further disadvantages:

- lack of representativeness,
- its reliance on common sense.

Stake (1995) stresses that “*all researchers have great privilege and obligation: the privilege to pay attention to what they consider worthy of attention and the obligation to make conclusions drawn from those choices meaningful to colleagues and clients*” (pp. 49). However, the procedure to select the case, to select where to pay attention is a subjective procedure. The researcher focuses on what he/she considers as important. Thus, Hamel, Dufour and Fortin (1993) point out that the explanation of the phenomenon under examination does not come from the fieldwork per se but “*must come from the researcher’s own distinctive point of view*” (pp. vii). Therefore, the researcher’s ability to present events objectively will affect the overall quality and efficiency of the study. Furthermore, Stake (1995) points out that the description of the phenomena may be affected by the mood, the experience, and the intention of the researcher (pp. 95). In addition, respondents express personal judgements, affecting the overall quality of the study. Therefore, a researcher should place extra care to select those respondents who are representative of the examined subject, in order to avoid respondent bias. Complementing the respondents’ views with statistical data can also contribute substantially to the quality of the study.

By examining attitudes and values within a firm, there is a possibility of lack of common language or a unified view. Researchers should try to preserve these *multiple realities*, the different and even contradictory views of what is happening (Stake, 1995, pp. 12). By studying different opinions for the same matter, the researcher will gain a better understanding of the subject and improve the overall quality of a study.

In addition, Yin (1984) stresses that:

- a case study may take a long time and result in massive, unreadable documents. Therefore, case studies should be completed on time and do not need to take a long time to complete (pp. 21).
- a respondent cannot deviate from the questions set by researcher. Thus, the respondent's answers can be constrained by the ground rules of the investigator (pp. 67). However, case study interviews can have an open-ended nature, where the respondent presents his/her personal opinion about the events (pp. 83).

Further to the above obstacles that a researcher should overcome, there is the problem of public access to private experiences, and the difficulty of deciding how and when to impose any interpretive framework on this. There is the question of how accurate participant's information is, and how accurate it needs to be, or can be (Easterby-Smith et al., 1991, pp. 115). Therefore, a researcher should place extra care in the way that they collect all the necessary information and to contact the 'right respondents' who are participating in the firm's actions and allow them to express their personal experiences objectively.

On the other hand, the case study as a research tool presents many advantages. The case study tries to capture the individuality of particular circumstances and contexts, while simultaneously attempting to present a critical insight into organisation reality. The examination of the personal experiences of the actors may contribute significantly to the understanding of the examined organisations behaviour. Case studies are used in order to explain the decisions, the programmes, the implementation process and organisation change (Yin, 1984, pp. 31). Thus, contacting those respondents who participate in the strategy formulation-implementation process and the collection of statistical data will provide useful meaning to the firm's behaviours.

A researcher can examine multiple cases or a single case in order to study a subject. Miles and Huberman (1994) argue that examining "*multiple cases offer*

the researcher an even deeper understanding of processes and outcomes of cases” (pp. 26), whereas examining a single case provides a more analytical and in-depth investigation of the case than cannot happen when examining multiple cases. Also, more detailed conclusions are expected to be extracted.

Yin (1984, pp. 140) also stresses that case studies that are based on many resources are more significant than case studies that based on less resources. A researcher can collect information from either internal or external sources to the firm. Both of them can shed light on organisations behaviour. In addition, Hamel, Dufour and Fortin (1993), identify that the collection of data relating to direct knowledge of the actors, *“will reveal the properties involved in the social relationships that constitute the direct experiences of social actors”* (pp. 32).

For all the above reasons, the case study method is the most appropriate method for the present study. By examining a single case a comprehensible understanding of a firm’s adopted strategies through a specific time span can take place. The present study focuses on uncovering the characteristics of the adopted strategies, explaining the reasons why the examined firm followed these specific strategies, how they were adopted, how events external to the firm affected these strategies, and how the selected strategies affected the airline’s performance. The selected case (Olympic Airways) is representative of the state-owned airlines. Therefore, similar airlines – mainly state-owned - which are in the same situation as the examined firm will also be able to learn from the Olympic Airways experience. In addition, firms from unrelated businesses, that have some similarities with the airline industry, can also benefit from the present thesis. According to Lovelock (1985), as it is stressed by Winzar (1992), *“researchers and practitioners in service industries can benefit from recognizing similarities in apparently unrelated businesses and learn from their approaches”* to strategic oriented problems (pp. 261).

Primarily, quantitative information is used. Furthermore, interviews take place to supplement the quantitative information, to avoid bias, to enable higher objectivity and empower the triangulation of findings to add more validity to the study's results. The key informants are representative in terms of their ability to discuss the strategic behaviour of the firm and are knowledgeable in reporting events, policies and strategies.

In the present study, the examined case/firm and its adopted strategies are looked at in-depth, its contexts scrutinised and its activities detailed, because this helps the researcher to pursue and understand the wider context relating to this subject.

5.3 Use of Qualitative and Quantitative Research in Case Studies

Singularly, quantitative and qualitative analysis present many advantages, however the linkage of quantitative and qualitative analysis can combine the advantages of each method and their combined implementation can lead to even better results.

Rist (1981, in Finch, 1986, pp. 50) points out that the advantages of the qualitative research, with its longitudinal perspective, can reflect both developmental and comparative dimensions of the studied issue. Qualitative research is the right method in order to describe the dimensions of the problem, because of the long term 'familiarity' with a specific environment and its actors. Furthermore, qualitative research has many advantages and for this reason has received the support of social scientists. These advantages make the qualitative research an ideal method for the present study. The advantages which are particularly useful for the present thesis are: the examination of the adopted strategies from actors in their natural contexts; the capability to provide descriptive detail, which makes situations 'comprehensible'; a capacity to study processes over time, including the policy-making process itself; and a capacity to

reflect the subjective reality of people being studied, most importantly those who are the target groups for defining organisation policy action (Finch, 1986, pp. 50-54). Shipman (1988), also, identifies a number of characteristics which further confirm that qualitative research is the right method for the present study: a 'commitment' to viewing events, action, values from the perspective of the people under study; the non-disturbance of the natural setting by the research process and the researcher and finally, the capacity of research to be adjusted in order to allow the unexpected issues to turn up (pp.71).

On the other hand, the main disadvantage of the qualitative research is the respondents bias, which may direct the research the wrong way. In addition, extra emphasis should be placed on the interviewer bias, particularly in this thesis due to professional relationship between the researcher and the examined case. However, how the researcher intends to overcome these obstacles, in the present study, is explained below in 5.4c) 'selecting the research strategy'.

The main advantage of the quantitative analysis is objectivity. Numerical data depicts reality more objectively than personal judgements. Stake (1995) stresses the differences between qualitative and quantitative methods. He supports that *"the qualitative researchers have pressed for understanding the complex interrelationships among all that exists"* and quantitative researchers have *"pressed for explanation and control"* (pp. 37). Moreover, quantitative researchers may see uniqueness of cases as 'error', while qualitative researchers treat the uniqueness of individual cases and contexts as important to understanding (pp. 39).

Miles and Huberman (1994:pp. 40-42) stress that the linkage of quantitative data with qualitative data is possible and presents many advantages. Furthermore, Rossman and Wilson (1984, 1991 in Miles and Huberman, 1994, pp. 41) stress that there are three broad reasons that explain the need to combine quantitative and qualitative data:

- a) to enable confirmation or corroboration of the results of each method via triangulation,
- b) to elaborate or develop analysis, providing richer detail; and
- c) to initiate new lines of thinking through attention to surprises or paradoxes, 'turning ideas around' providing new insight.

In addition, Madey (1978, pp. 7) stresses that though both methods are not always interchangeable, each method can be strengthened by using "*intrinsic qualities of the other*".

The above mentioned benefits, which the combination of qualitative and quantitative data can provide, make them ideal for the purpose of the present study.

Qualitative research has been chosen as being more appropriate to investigate the informants perceptions regarding the firm's adopted strategies. In parallel, secondary statistical data can complement the qualitative data, providing a deep understanding of the examined phenomena. Finally, the combination of quantitative and qualitative analysis is a significant advantage of the present study, leading to more rich and precise results. Thus, both the quantitative and qualitative data are employed to validate and to answer to the research questions that were developed in the literature review.

5.4 Research Design Process

According to Yin (1984), in the research design process four problems are generated: what questions to study, what data are relevant, what data to collect, and how to analyze the results (pp. 22).

The present study broadly included Yin's (1984) four different construction planning stages, as follows:

a) Selecting the examined industry

Hamel, Dufour and Fortin (1993) stress how important it is to select the 'right research site' (pp. v). A solid knowledge of the studied subject is necessary. The knowledge produced through study and review of earlier research, as well as hard thinking and creativity (Sudman and Bradburn, 1982, pp. ix). In addition, the professional experience of a researcher consists a significant source of knowledge.

Like the McKee, Varadarajan and Pride's (1989) study, the present thesis is restricted to one industry in order to frame questions that would have a common meaning among the respondents and common measures of performance. Studies for one single industry are characteristic of a large body of research in the strategy literature because they provide some degree of control over environmental peculiarities that confront individual organisations. These constraints improve the internal validity of the study, but reduce the implementation of the findings to other environmental contexts (McKee et al., 1989, pp. 21-35).

The selected site should present increased interest, and by studying it useful conclusions can be extracted. The specific study examines the airline industry, an extremely competitive industry, which is in the forefront of the world economy. The globalisation, the liberalisation, the global alliances, the entrance of low-cost no frills carriers, electronic commerce and privatisation are some of the current developments and challenges affecting the high volatile airline industry. To survive, carriers in this environment should develop new policies and strategies. In addition, the changes in the airline industry affect other industries such as aircraft manufacturers, tourism, etc., which adopt similar strategies to airlines (alliances, introduction of low cost strategies, etc). On the other hand, evolutions in the world economy (increase/decrease fuel prices, political instabilities, terrorism, etc.) first affect the airline industry.

The airline industry was selected for the research, in the present study, because:

- 1) it is a high competitive industry, so it is reasonable to assume that competitive strategy and competitive behaviour are important;
- 2) there is considerable strategic variety within the industry, so one would anticipate significant variation in the implementing of strategies and variation in performance;
- 3) many of the problems regarding the competition in the airline industry appear to be representative of the different kinds of problems that other industries face (Egelhoff and Haklisch, 1994, pp. 117-148); and
- 4) the close working relationship that the researcher has with the industry. These close relationships between the researcher and the subject of study are very important for gaining access to information. The deep and sustained involvement with particular organisations has often led to new insights, ideas and questions. This relationship can have implications for the extent to which the researcher will be able to move around and gather information and perspectives from many sources (Easterby-Smith et al., 1991, pp. 46 and 96).

Therefore, a basic issue at this stage, is the familiarity of the researcher with the study's subject. The knowledge of the selected subject through detailed study or through professional experience is vital for the study completion. In addition, the access to the international aviation organisations provides useful information and is very significant for the overall quality of the study. The main sources for the collection of secondary data about the selected industry are the two bigger international aviation associations, which prove the international character of airline industry, the International Air Transport Association (IATA) and the Association of European Airlines (AEA). Olympic Airways is a full member of both organisations. These organisations hold important quantitative and qualitative information. Furthermore, staff from these organisations can assist, providing data for any published information about the industry that exists. Moreover, vital at this stage of the study, are the initial contacts with specialists and

professionals, such as high level managers from international organisations and academicians. According to Porter (1980), the researcher firstly must make contact with someone who is knowledgeable about the industry but who does not have a competitive or direct economic stake in it (pp. 34-44).

At the initial stage of the study, a researcher begins with an extensive data base and systematically reduces the breadth of the data to focus on the emerging issues (Parlett and Hamilton, 1976, pp. 148). It was also very important, to avoid the complexity that broad data sometimes creates with every piece of published information needing to be scrutinised and referenced to other sources. Moreover, the researcher must be prepared to examine data critically. According to Jankowicz (1991), the researcher should have a critical approach of alternative and competing explanations for the events and issues explored... (pp. 163). Thus, different sources of information (interviewees and data sources) describe and explain different firm's choices, so the researcher should have a critical insight to this controversial information.

A review of published and unpublished official documents provides a significant amount of extremely useful secondary data, with evidence and background material to assist the researcher to understand the industry in detail.

b) Selecting the case

After selecting the subject of the study, the appropriate selection of the examined case/s is necessary. According to Stake (1995), the case selected should be typical or representative of other cases. However, the purpose of a researcher must be not to study a case primarily to understand other cases but first of all to understand the selected case (pp. 4).

The European air transport system, within which the selecting case/firm operates, is representative of the global air transport industry, fully deregulated, fully liberalised and therefore fully competitive.

As the business environment becomes more complex and unpredictable; so, firms that manage to survive are a very interesting business phenomenon, and must be examined. Olympic Airways achieved survival, overcoming all the crises, when, at the same time, other carriers facing all these problems ceased operations like Sabena and Swissair.

Olympic Airways has the basic characteristics of a state-owned airline, as highlighted in Chapter 3, namely: a) the occurrence of substantial losses, b) the existence of overpoliticised structure, c) the existence of strong labour unions, d) overstaffed and exhibits low labour productivity, e) no clear development strategy, f) bureaucratic management and e) poor service quality. The carrier's strategy has modified many times in this period in order to adjust to the events that have affected airlines, for example the liberalisation pact of 1992, the first Gulf War, and the terrorists attack of 11th of September 2001.

The longitudinal analysis of a case allows a better examination of the effectiveness of important events to the case/firm's performance. Thus, the effects of deregulation in the European air transport environment are great and these are still visible a few years after. Carriers, operating within a very big market, have the ability to reap huge benefits from this re-structuring of the European airline industry, where a large domestic base provides a vital head start. In addition, competition that comes from carriers outside of Europe must also be taken into account. The American and Asian airlines are the main competitors, flying everywhere in Europe and having significant market share in the European market. Therefore, in the airline industry, we should examine *"competition and strategy on a world basis rather than national markets"* (Turner, 1989, pp. 1-2). Moreover, the airline industry's evolution, such as alliances,

entrance and development of low-cost airlines, e-commerce, etc. has had an important impact on the strategies adopted by airlines. Furthermore, the changes of the internal environment of Olympic Airways have affected the selection of its strategies. Thus, intentions to change the ownership status to a more privatised scheme, the role of employee unions, and the role of the owner, are some of the factors that affect the strategies adopted by Olympic Airways.

Therefore, the researcher should examine the external and the internal environment, within which Olympic Airways operates, in order to better understand why the specific strategies were adopted, and how some factors moderate the effectiveness of the strategies adopted.

c) Selecting the research strategy

The purpose of the present thesis is to select the method/s that can obtain the information required to achieve the research objectives. Thus, the use of the qualitative and quantitative research methods seems ideal for the present study. Furthermore, the combination of the secondary empirical data and face-to-face interviews can provide all the required information.

Yin (1984, pp. 89-97) stressed that there are three principles which must be followed in the data collection procedure. These are:

- ❶ an investigator must use multiple sources of information (evidence),
- ❷ an investigator must create a case study data base,
- ❸ an investigator must maintain a chain of evidence.

The present study adopts the above three principles, in order to enhance the overall quality of the study.

Primarily, secondary statistical data is collected, which provides partial answers to the research questions. To enrich the answers provided by the statistical data, three methods of qualitative data collection are used in line with Patton (1990):

- In-depth open-ended interviews,
- Written documents, and
- Direct observation.

Yin (1984, pp. 83) identifies that through in depth interviews a researcher can collect a large number of information related to the examined case). Bingham and Moore (1934, in Sudman and Bradburn, 1982, pp. 4) define the research interview as a “*conversation with a purpose*”.

The study of the adopted strategies requires the understanding of the actors behaviour, thus it is necessary to explore how actors perceive the situation, the obstacles that they face and the alternatives they see opening up to them (Becker, 1970a, pp. 64 in Hamel et al., 1993, pp. 17). In addition, it is necessary to understand “*the meanings actors assigned to their own patterns of behaviour, beliefs, and rituals prevalent in their society*” (Hamel et al., 1993, pp. 3). Therefore, understanding all the above require the careful selection of appropriate actors/informants by a researcher. According to Easterby-Smith, Thorpe and Lowe (1991), the most important issue is to have the right contact within the examined firms or in the related organisations (pp. 54). Therefore, finding the appropriate person(s) who will be interested and concerned with the study issues, and arranging full interviews at mutually convenient times is vital to the successful completion of case research.

The interviewees in the present study were selected according to the following criteria (Jankowicz, 1991, pp. 194):

- their role, job title, and position in the organisation,
- their likely knowledge of the issue involved,
- their willingness to help,
- their likely perspective on the issue, so that idiosyncratic views can be controlled.

Moreover, the criteria concerning the ideal interviewees put forward by Johnson (in Patton, 1990, pp. 50-62) are also taken into account. Thus, the criterion of 'partiality' was not considered to be vital for this study. The criterion of 'respondents' position' in the examined organisations was considered to be the most important issue because high ranked managers may be able to discuss broad matters that are related to the whole organisation behaviour and they have the knowledge deriving from their role within the organisation. The criterion of 'willingness to co-operate' is significant also. Both of them are vital criteria in order to select the ideal interviewees within sample organisations. Furthermore, high ranked interviewees can increase the validity of the data obtained. Phillips (1981) stresses that "*high ranking informants tend to be more reliable sources of information than their lower ranking counterparts*" (pp. 395-415). In addition, high ranking informants are the appropriate source for providing valid and reliable data regarding "*organizational strategies and environmental conditions*" (Schul et al., 1995, pp. 129-142 and Sammiee and Roth, 1992, pp. 6). The researcher must also look for people who have different perspectives on key issues, and when talking to them attempt to understand why they hold different views (Easterby-Smith et al., 1991, pp. 64).

On the other hand, the medium level managers' have the necessary knowledge concerning the firm's adopted strategies because they participate in the strategy formulation-implementation process and finally implement these strategies. These medium level managers' strategic decisions may be constrained by top level corporate executives because top management, especially for state-owned bureaucratic organisations, exercise considerable power over the choice of strategies. However, the researcher must keep a balance, avoiding "*overweighting data from articulate, well informed, usually high-status informants and under representing data from less articulate, lower-status ones*" (Miles and Huberman, 1994, pp. 263). In addition, according to Buchanan et al. (1988) the use of informal contacts through people in the middle of the organisation, such as

marketing research people, is also recommended (Easterby-Smith et al., 1991, pp. 54).

The study's Interviewees

As far as the present study is concerned, six interviews were conducted (see Appendix A). The interviewees were mainly from the Marketing Function (five of six) and provided information about the implementation and evolution of the firm's adopted strategies and generally about the marketing perspective of the adopted strategies. Furthermore, they provided information about the commercial performance of the firm. In addition, one interviewee from the Financial Function provided information on the carrier's financial position, their involvement in the process from the strategy formulation to implementation and their personal opinions regarding the firm's adopted strategies in order to enable an evaluation of the effectiveness of the strategies adopted. Both Functions also provided a large amount of secondary statistical data.

In particular, the 1st Interviewee was the Manager of Customer Services Sub-division, the 2nd Interviewee was the Manager of Frequent Flyers Programme, the 3rd Interviewee was the Director of Scheduling Department, the 4th Interviewee was the Director of the Pricing Policy Division, the 5th Interviewee was the Director of the Product Management Division and the 6th Interviewee was the Manager of the MIS Sub-division. The questions they were asked were related to their daily job and concerned the implementation of the carrier's adopted strategies by their departments. All the above respondents have significant professional experience, holding managerial positions within Olympic Airways for most of the time period under examination. Also, a number of informal discussions (four) with the Heads of various departments and their staff took place in order to provide more information about their duties. This information sheds light on the gaps in the statistical data. Furthermore, an academician, with great knowledge of the subject, was also contacted to discuss the interview design. Dr. Alexandra Fragoudaki, Lecturer in Marketing and

Transport Economics, University of Athens and formerly Olympic Airways Research and Industry Analyst supported the interview design on the basis of her knowledge in this field.

The anonymity of the respondents was offered, but none requested it. However, some respondents asked that some of their answers not be presented as quotes, but did agree to the information being incorporated into the text/results. This is important as a researcher must keep a balance between the disclosure and the anonymity of both of the case and the individuals. The disclosure can help a reader to recall any other previous information from previous research or other sources. On the other hand, the anonymity can protect the real case and its real participants (Yin, 1984, pp. 136-137). In the present study, all the informants expressed their opinions about the adopted strategies of the firm and were prepared to criticise the firm's strategic behaviour in their answers. None of the respondents requested anonymity. The researcher advised the informants that the more sensitive data would be kept confidential, anonymous and would only be used for academic purposes.

Each interview lasted about an hour. The language used for the questions was English but the respondents answered in Greek. The questionnaire was initially designed in English as a large number of documents used for the research were in English, plus the fact that the customary language used in the airline industry is English. In fact many of the English terms are used even during discussions held in Greek. However, in order to ensure that the questions were fully understood, and that the responses were as complete as possible, the discussion was held in Greek. Therefore, the answers have been translated into English, for the analysis, being mindful that the meaning of the data was preserved during the translation. A tape recorder was used to enable the interviewer to be more dedicated to listening to the respondents answers. However, detailed notes were also made, particularly where the discussion touched a point of interest for further

elaboration with a different person or for action requiring additional information from other sources.

Interview Questionnaire

In the interview procedure, the interviewer should have a short list of issue-oriented questions, possibly handing the respondent a copy, indicating that there is concern about completing an agenda (Stake, 1995, pp. 65). In the present study, the interviewer gave respondents a brief description of the study and the issues/questions which were to be discussed. Moreover, quantitative data had been collected before the interviews, in order to assist the respondents to answer the questions. The questions were designed to be short enough, in order that the respondent did not forget the questions, but long enough to develop discussion. The questions posed were open-ended. Sudman and Bradburn (1982), point out that the open-ended format of the questions enforce and encourage the respondent to co-operate better with the researcher and to freely express his/her views. However, to construct these kinds of questions requires greater interviewer skill and the respondent must think harder in order to give a satisfactory answer (pp. 150-151). Moreover, Sudman and Bradburn, (1982) support that if open-ended questions are used, responses will be richest in face-to-face interviews (pp. 279).

Each questionnaire contained 8-12 questions. The study questions are posed in a separate part (Appendix A). Furthermore, the questions of each questionnaire are related to the job and knowledge of each respondent. Time was also given for respondents to think about the questions and the issues examined. The questions were given to the respondents and the answers were received and discussed with the researcher after few days. Extra answers and clarifications for particular issues were given after in some cases.

A questionnaire can include a combination of items from previous studies and new items specific for this study (Schul, et. al., 1995, pp. 129-142). In the present study, the questions asked are related to the job, policies and strategies which

were implemented by the interviewees department. In addition, the study issues should be very clear to interviewees in order to avoid complexity, confusion and any ambiguity. Therefore, questions were worded in a simple and comprehensible manner to assure understanding and to maximise the outcome of the interviews. Moreover, it is important to use appropriate language, so questions must be clear without too many theoretical concepts (pp.77) and without any extensive technical or ambiguous wording (pp. 84) (Easterby-Smith et al., 1991). Questions can also be left open, in order to avoid bias (Easterby-Smith et al., 1991, pp. 80).

The order of the questions was very important in order to encourage the respondent to give 'better answers', thus "*early questions should be easy, salient, and nonthreatening*", and gradually lead to more sensitive questions which should come near the end of the interview (Sudman and Bradburn, 1982, pp. 228). They identify that a total well-formatted questionnaire may contribute significantly to the overall quality of the study through an increase in respondents' motivation and a reduction in errors (Sudman and Bradburn, 1982, pp. 229). It is also very important each questionnaire finishes with a 'thank you' to respondents for the time and energy.

The researcher should also inform the respondent about the purposes of the study, in order to explain the general content of the questions, and to answer any questions the respondent may have about the sponsorship or the use of the survey data (Sudman and Bradburn, 1982, pp.11). Furthermore, outline the problem, its nature and the reasons for examining the specific issues. All the above will maximise the validity, credibility of information and the optimal flow of the interviews. This was the case, in the present study and the researcher offered clarifications to respondents, when they need it.

In designing the interview questionnaire, a pilot interview is necessary because it "*may reveal inadequacies in the initial design*" (Yin, 1984, pp. 53) and then the investigator should modify the design. The pretesting/pilot interview is an

important tool in order to refine data collection plans with respect to both the content of the data and the procedures to be followed (Yin, 1984, pp. 74). According to Diamantopoulos et al. (1994), respondents with knowledge of the subject are more likely to detect errors in the questionnaire than those without such knowledge. Moreover, expertise and knowledge are beneficial in that they help detect a greater *number* of errors on the whole (pp. 308). In the present study, one pilot interview was undertaken in order to identify any issues with the questionnaire designed. The first interview was used as a pilot interview and discussed with an academician and the first interviewee (see Appendix A). Both of them have significant experience and knowledge of the subject. A number of changes were made in order to make the questions clearer, shorter and more comprehensive. Thus, questions about the actions of the carrier's competitors were asked in most of the interviews in order to examine the firm's competitor orientation. This question was originally part of the other questions but the pilot interview showed that to make the questions clearer this should be asked separately. The initial question was "*What is the main purpose of Olympic Airways scheduling program and how this affected by the carrier's competitors schedules?*" and was modified to two separate questions "*What is the main philosophy of Olympic Airways scheduling programme?*" and "*Do you monitor competitors' schedules and adjust your schedule accordingly?*". The same pattern was followed with the questions concerning the co-operation of the carrier's various departments (see Appendix A), as the pilot interview showed that separate questions should be asked in order to place more emphasis on these issues and to obtain more detailed data to be collected. The pilot interview also identified two 'process' changes that needed to be made. The first was to ask respondents if they were prepared to provide more information later when the researcher composed and analysed the initial collected information and data. This was felt to be important in case the initial analysis highlighted other important questions that needed to be answered later. The second was the need to make telephone calls prior to the interview in order to explain the study's purposes and to ask for the contribution of respondents. It was felt that this would

improve the feedback provided by the respondents because they could be fully prepared.

Sudman and Bradburn (1982) point out that there are methods that may improve co-operation but question whether these improvements are worth the additional cost (pp. 274). In most of the cases, informants are generally co-operative and they want to help someone to do his job. In the present thesis, the co-operation of the respondents and researcher is guaranteed, due to familiarity of the researcher with informants. Also, all the procedures (researcher appearance, questionnaire design, etc.) should be designed in such way so as to facilitate the willingness of the respondents to offer the 'best answers'. The trust between interviewer and interviewee is very important and can be achieved when the researcher is viewed as having equal status to the manager-interviewee (Easterby-Smith et al., 1991, pp. 77). Also, it is needed to strengthen relationships between researcher and researched, in order to develop mutual trust. Thus, Eilen Fairhurst points out that "*the crucial personal skill is to be seen as someone who can be trusted....this will enable much to become possible*" (in Easterby-Smith et al., 1991, pp. 101). In the present study, trust and co-operation constraints were overcome by explaining to the respondents the objectives of the thesis.

Written Documents

Written documents were also studied, as the documents that the airline publishes about itself provide an important source of information on both their actions and their performance. Thus, an extensive review of annual reports, prospectuses and speeches or testimony by the firm executives, press releases, product literature, manuals, published company histories, transcripts of annual meetings, and even advertising provided very useful information. This meant that some quantitative information, such as the number of employees, the number of passengers travelled, etc. was not requested during the interviews, but was

obtained from the written documents. In addition, annual reports of specific departments were used in order to collect information about the adopted strategies. Thus, the annual reports of the Customer Relations Sub-division, the Training Center Division, and the Frequent Flyers Sub-division provided important information about the carrier's implemented strategies. The Olympic Airways Business Plans also revealed useful data and information about the carrier's adopted strategies.

In addition to these internal sources of information, the case study also utilised external data to provide context and comparative information. The Restructuring Plans of Olympic Airways and international organisations documents also provided useful information about the adopted strategies. The two restructuring plans (R. 2271/1994 and R. 2602/1998) and the measures set by the EU were important sources of information as they were independent reports that revealed a number of the carrier's inefficiencies and suggested solutions in terms of the strategies that the carrier should adopt. The International Air Transport Association (IATA) reports, the International Civil Aviation Organisation (ICAO) reports, and the Association of European Airlines (AEA) Yearbooks provide data for the airline industry and for their members. According to Easterby-Smith et al. (1991) internal reports, Chairman's statements, and newspaper articles, have always provided a valuable source for the researcher (pp. 119). Therefore, newspaper articles and international magazines which are concerned with the airline industry and more specifically Olympic Airways, were also taken into consideration. The reading of these magazines over a long period of time provided a useful way to understand the competitive dynamics and important changes in the industry, as well to diagnose its norms and attitudes.

Direct Observation

The field visit for direct observation is an important source for additional information about the topic being studied. Thus, observations of meetings,

sidewalk activities, factory work and taking photographs, may provide useful insights to investigators (Yin, 1984, pp. 85). However, the contribution that direct observation can provide depends on the nature of each study. In the present thesis, the daily contact of the researcher with the subject contributes substantially to the study's quality. The personal visits of the researcher to other Departments, the discussions with the staff of these Departments about their daily actions, and the collection of published and unpublished secondary data was very important for the overall quality of the study. Most of these visits took place before the interviews in order to collect all the necessary information and then interviews designed in order to find the rest required information about the interviewees perceptions of the carrier's adopted strategies.

Summary

The information collected from secondary statistical data provided by internal and external sources to the firm is enhanced by the interviewees opinions regarding the firm's adopted strategies to strengthen the validity and stability of the results. The internal information is collected mainly from the firm's commercial and financial departments. The external from aviation international organisations, which hold significant information, because all the airlines contribute to these organisations databases.

According to Yin (1984) the investigator should avoid the over reliance on specific documents, they can mislead the researcher, because they are written for some specific purpose and some specific audience other than those of the case study being done (pp. 81). Furthermore, the researcher must avoid the over reliance on key informants because of the interpersonal influence that the information may have over the investigator (Yin, 1984, pp. 83). The present study is based on various sources, which all have the same importance, and are checked with other sources. This cross check of various sources improves the quality of the study, providing the real picture of the situation.

An important problem that the present and other similar studies face is respondent bias. Respondents tend to support that their adopted policies and strategies are the most proper and provide a number of reasons for this (Moss and Goldstein, 1979, pp. 51). However, finding information about these strategies from various other sources can help overcome the respondent bias. Furthermore, because co-operation is guaranteed there is no problem with accessibility to the right person, the person who holds the information that can assist the researcher to answer the research questions.

A serious aspect influencing the potency of this project is the researcher's professional relationship with the airline industry and specifically with the examined carrier. This relationship contributed substantially to contacting those informants who knew the firm's strategic behaviour well, to ask them particular questions about the firm's adopted strategies, and to establish mutual trust and co-operation. Also, this long relationship significantly assisted the researcher to understand the existence of the respondent bias. Thus, extra clarification questions were asked and further statistical data were used, when the researcher felt that bias might be an issue. Consequently, the relationship of the researcher with the examined airline is an important advantage of the present thesis. Conclusively, the combination of secondary statistical data completed with well designed objective informal interviews and discussions assisted the study to overcome potential respondent bias.

The objectiveness of the respondents and the researcher are necessary conditions in order for appropriate conclusions to be extracted. To ensure this, the author asked the same questions in more than one interview so that consistency in the answers could be obtained. In the cases where the responses differ, the author took into account the knowledge and position of the interviewees and approached them for clarification. All assumptions and

explanations extracted from the interviews have then been assumed to be comparable.

The following principles have been adopted in order to enhance the objectivity of the study, as they are described by Miles and Huberman (1994, pp. 278).

- ☞ The methods and procedures, which are used to collect all the required information, are described explicitly and in detail.
- ☞ There is a regular sequence of how data were collected, processed, analysed and displayed for specific conclusions drawing.
- ☞ The conclusions are explicitly linked with the presentation of the collected data.
- ☞ There is a record of the study's methods and procedures, detailed enough to be followed as an 'audit trial'.
- ☞ The researcher is aware of the existence of possible personal assumptions, values and biases. The appropriate questions and clarifications are used to enhance clarity and to avoid bias.
- ☞ The study's data are retained and are available for reanalysis, whether it is necessary.

The collected data was checked for the period of 12 years (1990-2001), in order to monitor the examined strategies over time and to avoid 'static' information. According to Pettigrew and Whipp (1991), the use of longitudinal analysis in order to study the change that happens in the organisations should see it within the broader social, economic and political environment surrounding each organisation, and the researcher should gather data over periods of time significantly longer than the immediate focus (pp. 103). Also, "*systematic research on a longitudinal basis would reveal whether performance ... classified on the basis of strategic orientation varies over time*" (Dess and Davis, 1984, pp. 486).

This research examined the 12 years period from 1990-2001. In this period, the company's adopted strategies had been modified many times in order to respond to the local and international conditions. 2001 was the last year that data was available for Olympic Airways when the present study was written. However, in some cases, where data was available for the post 2001 years it has been used. In addition, in some cases only data up to 2000 has been used due the lack of data available, particularly from Olympic Airways.

d) Validating the collected data

Two components must be used in qualitative research in order to check the quality of the empirical elements, these are: validity and reliability (Kidder, 1981, pp. 7-8 in Yin, 1984, pp. 36-41).

Validity in qualitative research is largely concerned with description and explanation.

Yin (1984) points out that there are three tests relating to the validity. The first tactic is to increase the 'construct validity'. This can be happen by:

- a) using multiple sources of evidence,
- b) establishing a chain of evidence,
- c) presenting a draft of the case study report to be reviewed by key informants (pp. 37).

For the second, Yin (1984, pp. 38) stresses that the researcher should examine "*whether event x led to event y*" and moreover to examine if there are 'third factors' which influence this causal relationship. This is known as 'internal validity'. The third test of validity, according to Yin (1984, pp. 38) is of 'external validity', which "*deals with the problem of knowing whether a study's findings are generalizable beyond the immediate case study*". In the present study, the first

test of validity is taken into account. The other two tests of validity are beyond the scope of the project. Therefore, multiple information sources are used, i.e. a number of interviews, quantitative data, written documents. The in-depth analysis of the subject produces high quality outputs, from which important generalisations for the examined firm and for other firms can be extracted.

Yin (1984) defines reliability as the test in which the objective is that if a later researcher followed the same procedures they would achieve the same results (pp. 40), i.e. that a measurement procedure would yield the same answer, however and whenever it is executed. Shipman (1988), however, stresses that reliability in social research is very difficult to achieve (pp. 51).

When using the interview method, the reliability test constitutes a problem, because the process of data collecting cannot be repeated. Moreover, in the fast changing environment within which the airlines operate, the observations may differ through time.

Sudman and Bradburn (1982), point out that the collected data may not provide complete accuracy, thus the researcher should use them with extra caution, *“recognising their limitations but also recognising that flawed results are usually better than no results at all”* (pp. 50). This problem is reduced in the present study, by the use of multiple sources of information.

The combination of open-ended interviews, documentary analysis and quantitative data are used in the present study in order to enhance validity and reliability, where according to Kirk and Muller (1986), reliable evaluation is achieved through ‘data triangulation’ by *“comparisons of data elicited by alternative forms”* (pp. 101). Thus, the interview data is cross checked with written reports from international organisations and quantitative data from inside and outside the examined firm, in order to give a reliable evaluation of the knowledge or views derived by the interviews. In addition, the researcher can crosscheck one written source against another, a written source against the

results of an interview, the results of interview against quantitative data and the results of one interview against the results of another (Jankowicz, 1991, pp. 161). All these took place in the present study and enhanced the overall quality of the thesis.

5.5 Data Analysis

Yin (1984, pp. 110) points out that when a researcher deals with a large amount of data, statistical analysis should take place in order to analyze the data. On the other hand, Yin (1984, pp. 111) stresses that the outcomes of a study may be clear to the naked eye, thus no statistical comparison is needed to confirm the results. Moreover, he points out (pp. 119) that the investigator should follow a general strategy for analysing the data in order to avoid analytic difficulties.

The management and analysis of qualitative data is considered highly problematic, because a large amount of unorganised information derived from the conversations with the interviewees. Patton (1990) points out that *“there is no right way to go about organising, analysing and interpreting qualitative data...and there is not a precise point at which data collection ends and analysis begins”* (pp. 77).

Miles and Huberman (1994, pp. 10) define analysis as consisting of *“three concurrent flows of activity: data reduction; data display; and conclusion drawing/verification”*. These steps are necessary because working with original sources can overload the data processing ability of the analyst and important information can be missed. The analysis of both the transcripts and the written documents was done by coding and extracting from each document (within-case analysis) those elements which the researcher considered to be important or relevant to each of the specific research questions, and then comparing them with the findings from each of the other sources (cross-case analysis). The coding took place after completion of all the data collection, which is considered a

better method than coding after each individual interview, because there is a danger that otherwise *“the new data collected to verify the pattern are being sought out selectively”* (Miles and Huberman, pp. 70).

In terms of the written documentation, it is important for the researcher to know the documents significance and what it tells you (Miles and Huberman, 1994, pp. 54). The written documents used in the present study were, in general, lengthy and complex. However, the position and background of the researcher made it possible to utilise these documents during the analysis because of their knowledge of the organisation and industry. In addition to this issue of understanding the content, it is also important that the researcher be aware of the possible bias of these documents, such as the reason for the document being produced and who they were produced by. Again, the in-depth understanding of both Olympic Airways and the industry enabled the researcher critically assess the content of the documents. The use of external information also allowed the researcher to compare conclusions drawn with other sources. .

In the present study statistical analysis of the interviews did not take place. Data obtained from interviews was used in order to give answers to questions rising from the implementation of the theoretical side into the empirical side of the study and to complement the gaps the statistical data do not fill. Detailed examination of the answers of the questions ultimately shed light on the research questions and, in conjunction with the secondary statistical data and the written documents, comprehensively answered the research questions. The written documents added to the overall quality of the study by providing answers to those questions left insufficiently answered or unanswered by the interviews and statistical data.

As far the qualitative data are concerned, in the present study, the three steps suggested by Miles and Huberman (1994) as data reduction, data display and conclusions drawing and verification (pp. 10-12) has been followed. In addition, grounded theory has also been partially adopted in the present study. It is

qualitative research method that uses a systematic set of procedures to develop an inductively derived grounded theory about a phenomenon (Strauss and Corbin, 1990). The purpose of the grounded theory is the “*discovery of theory from data*” (Bryman and Burgess, 1994). Grounded theory works by collecting data, generalising findings into statements about the possible relationships involved and checking out these statements by further data collection to a point at which one can generalise about the findings of the research (Jankowicz, 1995). In the present study, collected data and information led to conclusions, which were then further examined through the collection of more data.

As far as the quantitative data is concerned, Yin (1984, pp. 112-114) stresses that the use of time-series may assist the analysis of collected data. It is very important to identify the specific indicator(s) and to monitor these over time. However, having complex and long time-series may create greater problems for data collection, but it can contribute significantly to analysis and more precise results can be produced. In this particular study, the effectiveness of the adopted strategies, or lack of any adopted strategy, on the carrier's performance is very clear, thus no further statistical analysis took place beyond the basic descriptive statistics.

Chapter 6

Results

The following areas of analysis are discussed in relation to the research questions set in Chapter 4. Section 6.1 presents the analysis of data and information for the first research question, concerning the adoption of Porter's generic strategies within Olympic Airways during the period 1990-2001, discusses the way that these strategies have been implemented, and examines their impact on performance. Section 6.2 presents analysis of data and information related to the second research question concerning the adoption of the market orientation concept within Olympic Airways during the period 1990-2001. It also examines the way that this concept has been implemented and its impact on performance. In section 6.3 the analysis of data and information for the third research question concerning the investigation of the relationship between Porter's generic strategies and the market orientation dimensions is presented. Section 6.4 presents the discussion for the fourth research question based on the information concerning the moderating impact of external factors on the relationship between the Porter's generic strategies and market orientation dimensions.

6.1 The Implementation of Porter's Generic Strategies in Olympic Airways

The analysis that follows attempts to provide insight to the first research question as to whether Olympic Airways has implemented any of Porter's generic strategies, namely cost leadership, differentiation and focus in the examined period 1990-2001.

The implementations of the cost leadership and differentiation strategies by the carrier are examined through the analysis of a number of parameters. Firstly, total costs are assessed, then these are broken down into a number of specific

cost areas including, labour costs, sales promotion and advertising costs, costs for on-board passenger travelled, reservation costs, passengers compensation due to irregularities, training costs, flight entertainment costs, staff uniforms costs, airport charges, passenger service costs and ticketing, sales and promotion costs. These parameters have been chosen because they represent areas of both costs and investments for the carrier. Areas such as sales promotion and advertising costs, on-board passenger travelled costs, flight entertainment and so on, can either be areas that are part of the carrier's cost minimisation strategy or as areas of further investment in order to achieve a differentiation advantage. Each of these key parameters are presented below and assessed in order to determine what Olympic Airways has done towards implementing Porter's strategies between 1990 and 2001 and what can be learned from the findings. The carrier's focus strategy is examined through the geographical distribution of passenger seats offered and passengers carried.

The impact of the implementation of the Porter's generic strategies on the carrier's performance is examined using the detailed performance analysis and data that were posed in chapter 3 (section 3.2) and this is presented within each of the following sections.

6.1.1 Olympic Airways Total Costs

It is important for airlines to scrutinise all cost items in order to find areas of cost reduction. However, all cost cutting activities must be done in such a careful manner so as not to undermine the present and the future airlines' competitiveness. Therefore, carriers should not just focus on minimising those costs that represent the bigger share in the carriers cost structure, but should also look at smaller cost areas because a number of small changes can have the same impact on costs as one large change but are less likely to affect the carrier's image and do not require significant effort by the management.

Figure 6.1.1 shows the Olympic Airways total costs for the examined period 1990-2001, in index form and in deflated 1990 prices.

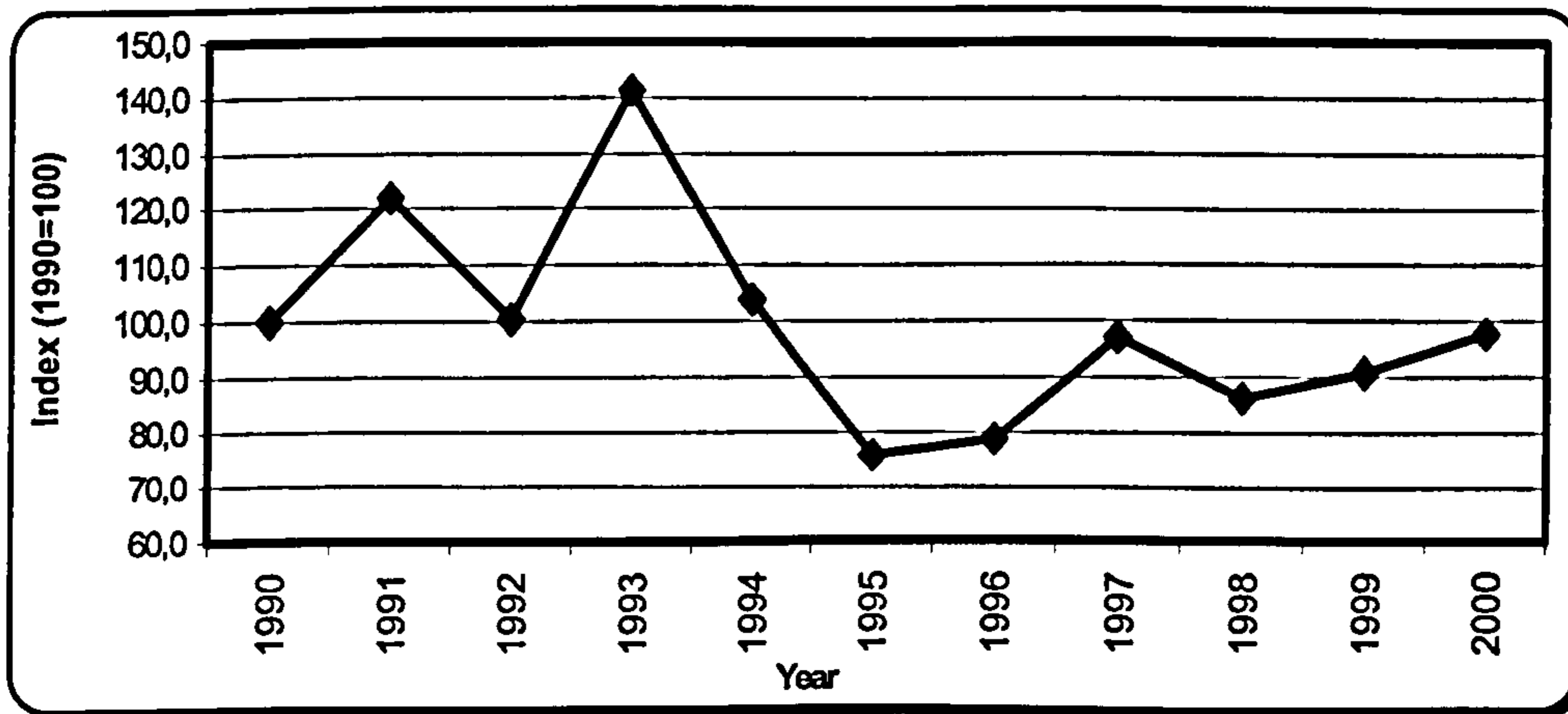


Figure 6.1.1 Olympic Airways total costs in deflated prices (index) (Olympic Airways, Financial Department)

As figure 6.1.1 presents Olympic Airways total costs were at their highest level in 1993. Labour costs account for over one third of the carrier's operating expenses, more than any other single category. The main reason for Olympic Airways high costs in 1993 was due to high labour costs. Direct payments to employees were increased by 15.13 per cent in 1993 compared to the previous year payments, in deflated prices. In addition, in the mid 1990s employees did 35 per cent of the airline's work as overtime. These costs then decreased in 1994 and 1995, as a result of the implementation of the first restructuring plan (R.2271/1994). The main objectives of the first restructuring plan were: financial restructuring; cost reduction, mainly through pressing down labour costs; and network revision. The implementation of the cost restructuring plan succeeded initially, shown by the reduction in total costs between 1994 and 1995. Thus, in the financial year 1995 the Olympic Airways operating surplus increased significantly to US\$56.5 million compared to US\$21.3m in the previous year (Doganis, 2001, pp. 208).

However, total costs started to increase again in 1996 and 1997. In 1997, generous wage increases averaging over 20 per cent for the ground staff and 85

per cent for the flight crews were granted and by the end of 1997 the airline was facing substantial losses again. Also in 1997 Olympic Airways paid 8.5 bn GRD in staff compensation for voluntary redundancies, and the total labour costs increased by 17.7 per cent compared to the previous year labour costs. This led to the implementation of a second restructuring plan in 1998 (R. 2602/1998) (Doganis, 2001). However, encouraged by the high redundancy compensation payments, employee numbers were cut-back by 15 per cent through voluntary redundancies, shown by the lower costs in 1998.

Following the new restructuring plan adopted in 1998 (R. 2602/1998), the aid authorised in 1998 was granted to cover the period 1998-2002. According to this plan, efficiency should have increased as a result of increasing fares, restructuring the network and improving the quality of the product offering. The objective of this restructuring plan was to ensure the return of Olympic Airways to viability from 2000 as a result of intensified efforts to control costs and to improve productivity (Commissions Press Room, 11/12/2002).

However, the repeated changes in management and the state intervention in the period 1997 to 2000 (as stressed by Doganis, 2001, pp. 209; and the Commission, December 2002) has led to further losses and the carrier has not been able to apply the measures needed to achieve the objectives set by the 1998 restructuring plan, as shown by the steadily increasing costs since 1998. This led to the Commission's decision (11th of Dec. 2002) to penalise Olympic Airways for not achieved the objectives of the second restructuring plan (R. 2602/1998) (as discussed in Chapter 3, section 3.1). They have, therefore, made the obtaining of the aid conditional on compliance with the competition rules (EU Institutions Press Releases, 11/12/2002). Thus, Olympic Airways has lacked equity since 1999 and remains very much in debt (Commissions Press Room, 11/12/2002). This position is made more difficult by the above decision to make the obtaining of aid conditional on improvements.

The monitoring of the carrier's unit costs and a comparison with another carrier and with the industry as an average can also shed light on the discussion of the Olympic Airways cost position.

The following figure (6.1.2) presents the unit costs of Olympic Airways, British Airways (BA) and an AEA average.

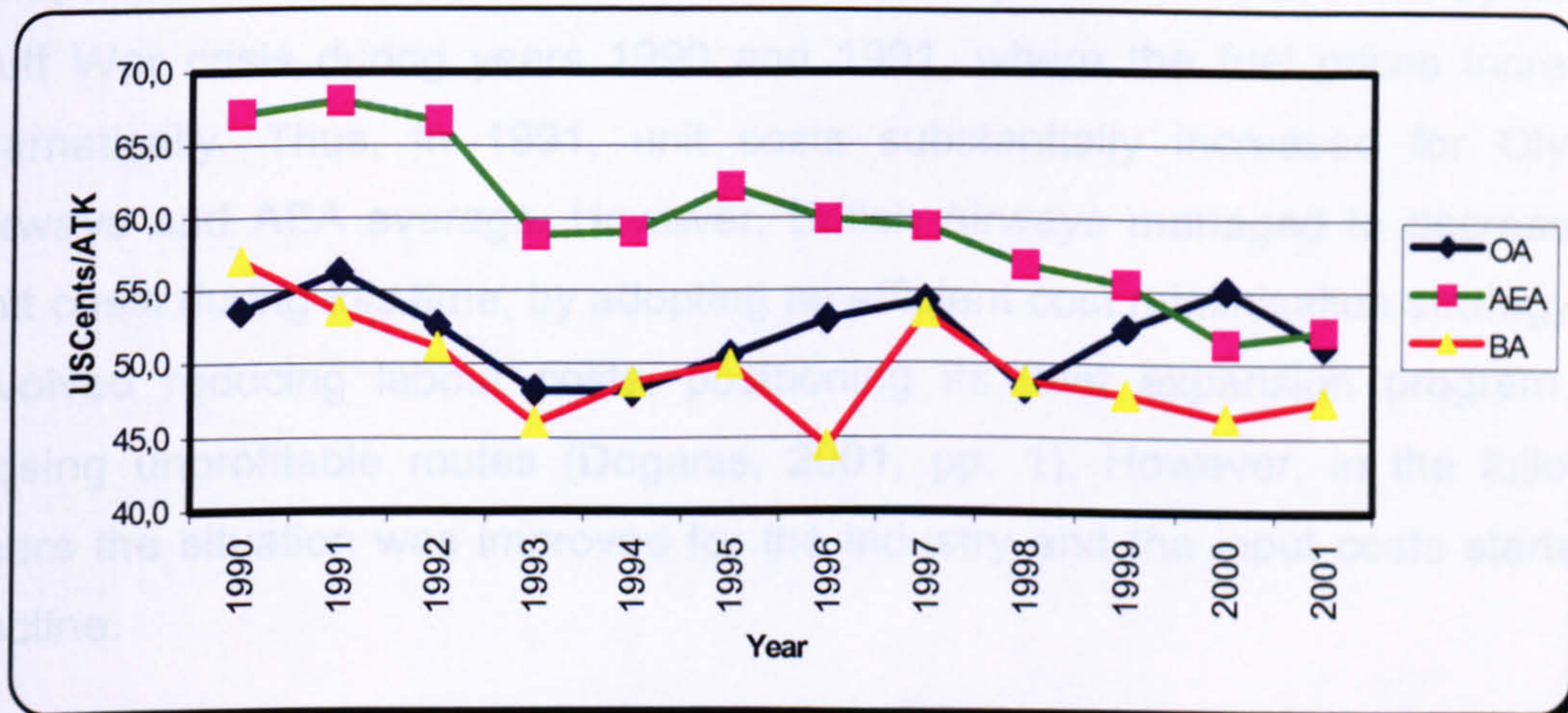


Figure 6.1.2 Unit Costs in UScents/ATK (Association of European Airlines, Yearbook 2002)

Figure 6.1.2 shows that Olympic Airways unit costs are lower than the average unit costs of AEA members, except for the year 2000, where, in the period 1999-2000, generous wage increases were given by the management (Speedwing) in order to have the support of employees and their unions. In general, Olympic Airways unit costs are lower than European competitors because the average annual salaries for the carrier's employees are much lower than of the main competitors. Thus, the average of AEA annual salaries are 51.8 per cent higher than Olympic Airways in 2001 (AEA data, RB8, 2002). However, this must be assessed against the fact that the main disadvantages of Olympic Airways are the lower fares that the carrier charges its travellers and load factors than its main competitors. Olympic Airways serves low yield, tourist and visiting friends and relatives (VFR) traffic which present high seasonality, as a result load factors are high in the peak seasons and low in the off peak seasons. Figure 6.1.2 also

shows that Olympic Airways had similar levels of unit costs as British Airways during the period 1990-1995 and in the years 1997 and 1998. However, in 1996 and since 1998 Olympic Airways unit costs have been much higher than British Airways.

Figure 6.1.2 clearly shows that the two restructuring plans (in 1994 and 1998) have not managed to improve Olympic Airways cost efficiency versus the competition. The increases in the airline's industry costs were affected by the first Gulf War crisis during years 1990 and 1991, where the fuel prices increased dramatically. Thus, in 1991, unit costs substantially increased for Olympic Airways and AEA average. However, British Airways managed to decrease its unit costs during this time, by adopting an efficient cost minimisation strategy that involved reducing labour costs, postponing its fleet expansion program and closing unprofitable routes (Doganis, 2001, pp. 1). However, in the following years the situation was improved for the industry and the input costs started to decline.

In Olympic Airways, the unit costs increased despite the implementation of the first restructuring plan in 1994 and the stability of the wages for the 1994-1995 period (condition of the first restructuring plan). The same pattern was observed with the introduction of the second restructuring plan (R. 2602/1998) and the costs increased again. As figure 6.1.2 shows AEA average unit costs are higher than the Olympic Airways and British Airways unit costs and it is clear that AEA have significantly reduced its average unit cost continuously since 1992, except for small rises in 1995 and 2001. On the other hand, British Airways unit cost started to increase in 1994 and 1995. In the following year, its unit cost rapidly decreased and in 1997 substantially increased. In line with AEA, British Airways unit costs have also followed a declining trend from 1997 until 2001, where a small rise is recorded. It was in 2001 that Olympic Airways improved its unit costs by minimising overtime and network economies. Therefore, it appears that in 2001 Olympic Airways adopted more efficient cost cutting strategies shown by its

unit costs declining when those recorded by British Airways and the AEA average rose.

Having looked at the overall total cost figures, table 6.1.1 presents a breakdown of the Olympic Airways cost structure for a twenty years period.

	1978	1988	1998
Labour Costs	41.50%	35.00%	38.00%
Fuel Costs	16.90%	9.81%	12.27%
Financial Costs	2.09%	13.78%	5.88%
Aircraft Related Costs	6.58%	7.25%	8.27%
Sales Promotion and Advertising Costs	8.13%	7.46%	11.23%
Other Costs	24.80%	26.70%	24.35%
Total Costs	100.00%	100.00%	100.00%

Source: Olympic Airways, Financial Department, Annual Accounts

As mentioned previously, labour costs represent nearly 40 per cent of Olympic Airways total expenditure and even at their lowest level of 35 per cent in 1988, it is higher than the carrier's main rivals, according to AEA annual data (AEA, RB8, Annual data). This is particularly significant given that this has been a key area of focus for reducing costs as part of the two restructuring plans.

As can be seen from Table 6.1.1, fuel is also a very large component of an airline's operational costs. Fuel costs are affected mainly by the price of international oil, therefore, an airline's management have very little influence over the cost of crude oil. However, they can control fuel costs through the adoption of more sophisticated fuel-buying strategies (Airline Business, January 2002, pp. 52), more efficient fuel management policies, and selecting (buying or leasing) more fuel efficient aeroplanes.

As far as Olympic Airways is concerned, although the carrier's fleet is not very fuel efficient, because the average age of fleet is about 10 years old (2000 Olympic Airways data), since 1996 more strict fuel management policies have been adopted and the carrier's fuel efficient new A340-300 aeroplanes bought in 1999 have enabled the carrier to control its fuel costs somewhat. Therefore, despite the carrier's poor fuel efficiency, the figures show that the percentage spent on fuel by Olympic Airways is similar to their European competitors (AEA data), where fuel costs fluctuate between 10 and 15 per cent of total costs (Doganis, 2001, pp. 101).

Since 1975, Olympic Airways has tended to buy many aeroplanes together in short periods of time. Thus, in 1991-1992, Olympic Airways bought six Boeing 737-400 and two A300-600 and in 1999, four Airbus A340-300 and eight Boeing B734-800, costing Olympic Airways about 900 billion USD. This has caused the financial costs to increase enormously in some years. A similar buying pattern was the cause of the high costs in 1988.

Olympic Airways aircraft related costs rose in the last few years due to the increased maintenance and leasing costs. This is due to the absence of fleet commonality by the carrier. These costs are expected to increase further because the price of aircraft insurance has been rising internationally and the move of the carrier to the new Athens International Airport from the Hellinikon airport, which has contributed to these costs (higher parking and landing fees).

Sales and advertising costs increased substantially during the 1988-1998 period, due to more commercial strategies adopted by Olympic Airways in order to face the increased international and domestic competition.

Other Costs include IT support, ground handling, infrastructure and administration costs, and passengers related costs. They are a significant

proportion of the carrier's cost structure, comprising 25.3 per cent on average of Olympic Airways total costs, with very little fluctuation over the 30 year period.

The cost data of the table 6.1.1 is depicted by sub-category in the following figures 6.1.3, 6.1.4 and 6.1.5 showing Olympic Airways costs structures for 1978, 1988 and 1998 respectively. This makes it easier to see which costs were the most important during this period.

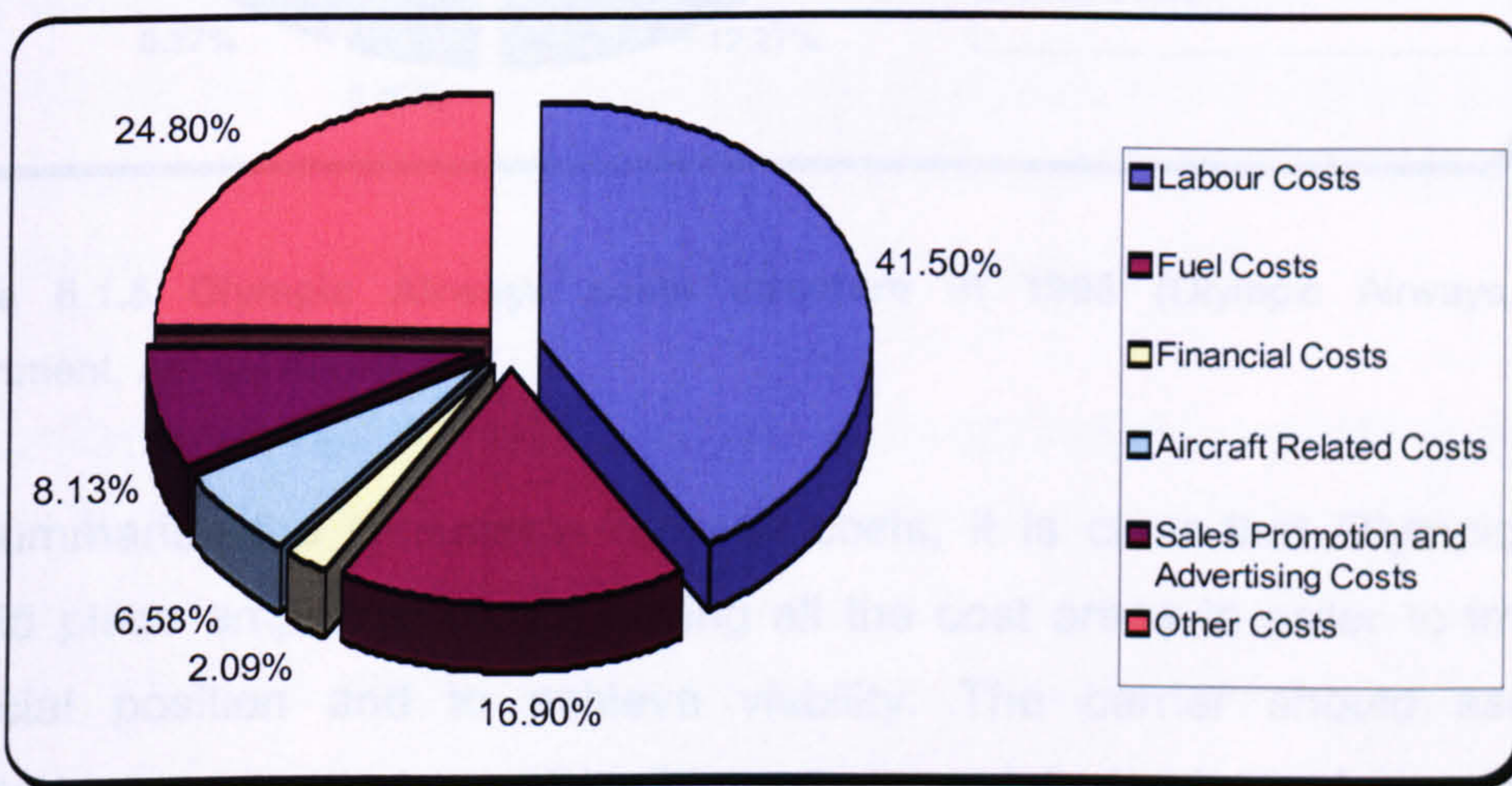


Figure 6.1.3 Olympic Airways costs structure in 1978 (Olympic Airways, Financial Department, Annual Accounts)

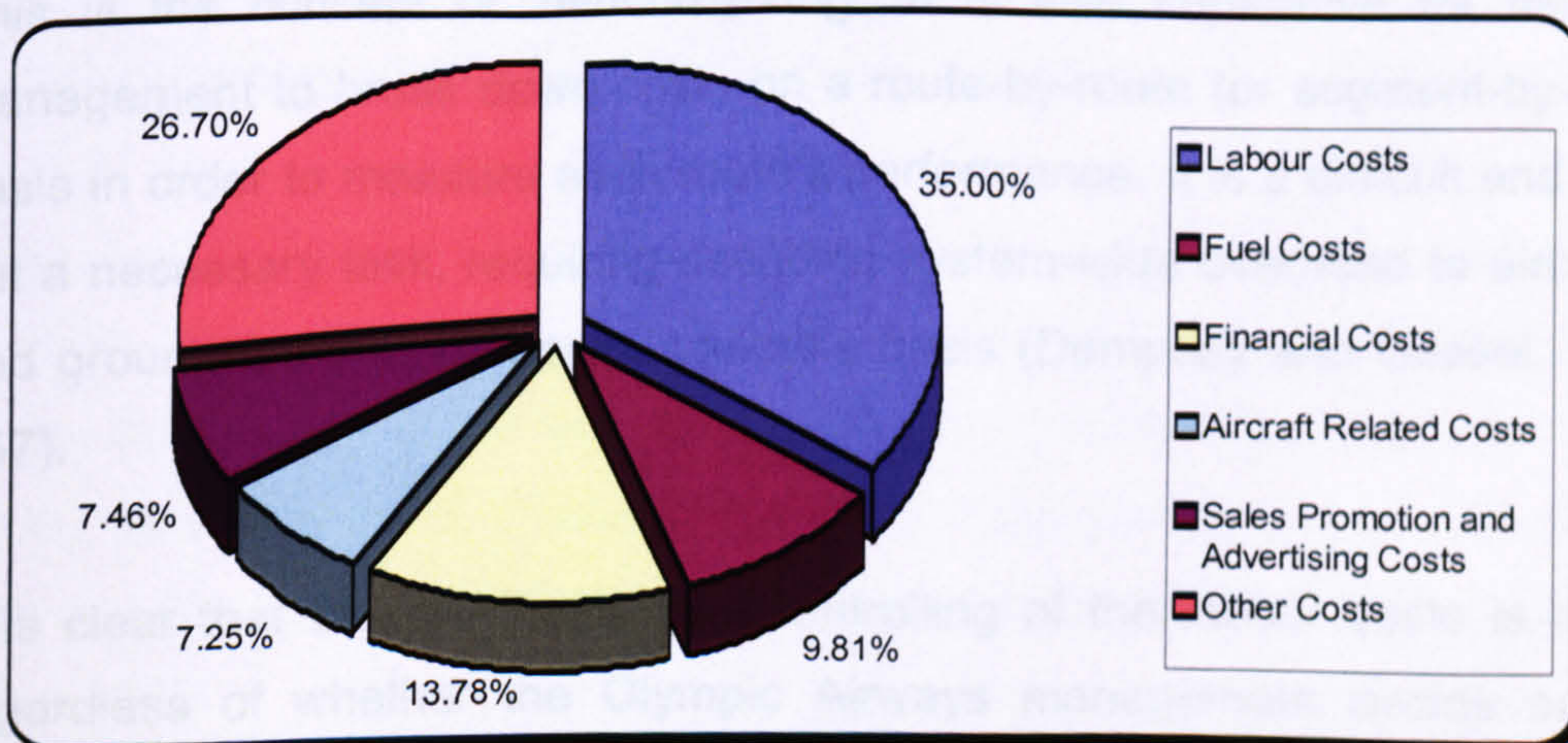


Figure 6.1.4 Olympic Airways costs structure in 1988 (Olympic Airways, Financial Department, Annual Accounts)

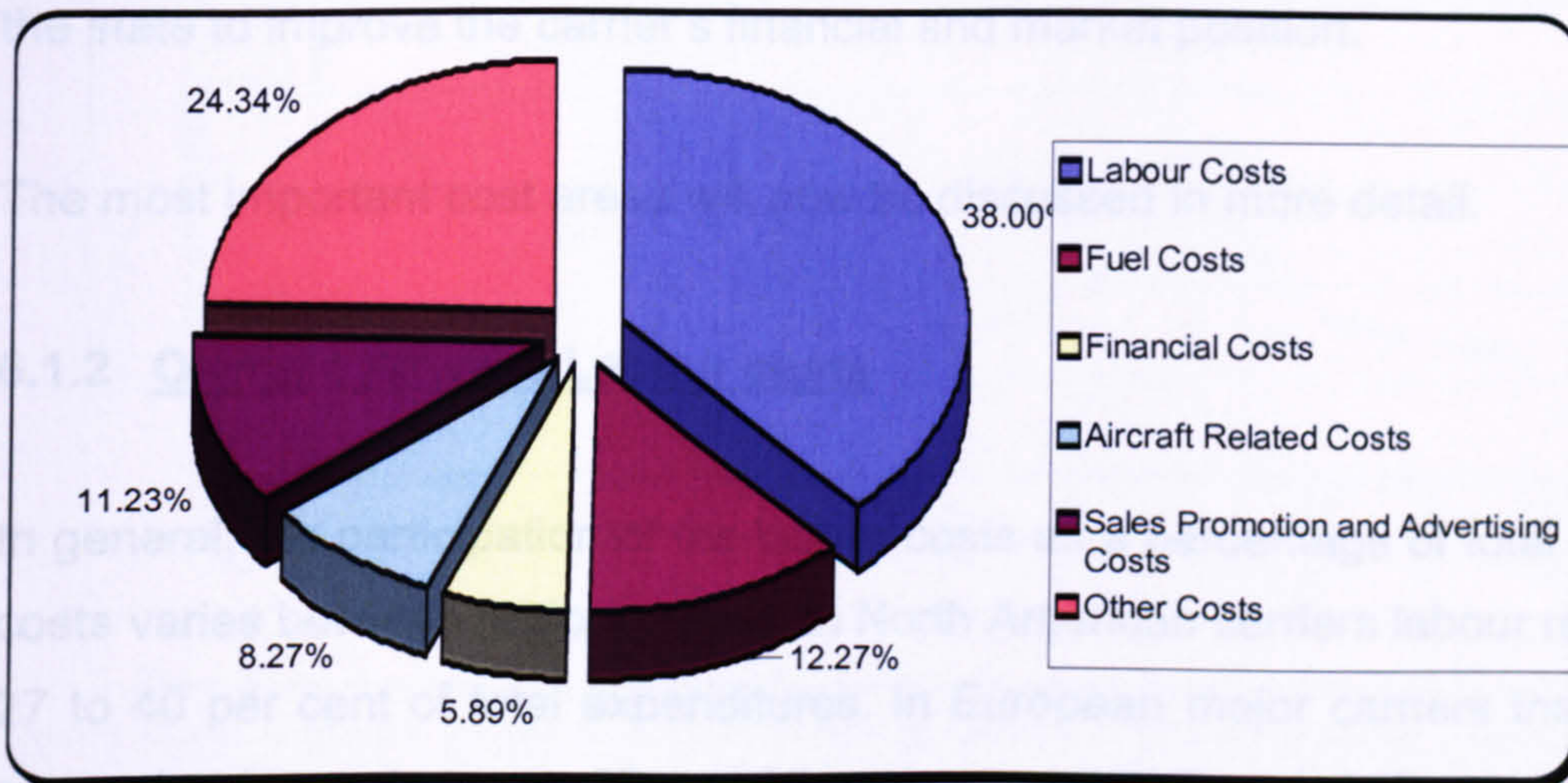


Figure 6.1.5 Olympic Airways costs structure in 1998 (Olympic Airways, Financial Department, Annual Accounts)

To summarise the discussion on total costs, it is clear that Olympic Airways should place emphasis on controlling all the cost areas in order to improve its financial position and to achieve viability. The carrier should establish a monitoring system that examines its costs on a daily basis, and compares them with carriers having similar route structures and operational characteristics to determine whether certain cost categories are consuming excessive resources. This is the concept of 'benchmarking'. It is also imperative for the carrier's management to break down costs on a route-by-route (or segment-by-segment) basis in order to measure each route's performance. It is a difficult and complex, but a necessary task, requiring ascribing system-wide overhead to aircraft, crew and ground facilities on some equitable basis (Dempsey and Gessel, 1997, pp. 357).

It is clear that the monitoring and controlling of the labour costs is necessary regardless of whether the Olympic Airways management decide on a cost-leadership strategy or whether it chooses to adopt a differentiation strategy, because Olympic Airways is in such a poor financial position (see section 3.2).

The carrier's costs will need to be considerably reduced by the management and the state to improve the carrier's financial and market position.

The most important cost areas will now be discussed in more detail.

6.1.2 Olympic Airways Labour costs

In general, the participation of the labour costs as a percentage of total operating costs varies between regions. Thus, in North American carriers labour represents 27 to 40 per cent of total expenditures. In European major carriers the figure is somewhat lower, between 20 and 35 per cent and in East Asia it represents only 15 to 20 per cent of total costs (Doganis, 2001, pp. 101-102).

Labour costs are among the most potentially controllable operating costs (J.P. Morgan Securities, 1993, pp. 22), leading full service established airlines to focus on wage and staffing reductions and productivity improvements via work rule changes. They are also the largest single cost element of carriers cost structure.

In the case of Olympic Airways, the labour costs involve employee wages, overtime, staff insurance, out of base allowances, crew hotel accommodation, and so on. Therefore, it is essential to address all the above mentioned elements in order to effectively control and significantly decrease the total labour costs.

The following figure (6.1.6) shows that Olympic Airways labour costs are highest in 1990, 1993 and 1997, in deflated prices. This was the most important reason for the introduction of the two restructuring plans in the following years (1994 and 1998), aiming to assist Olympic Airways to reduce labour costs. However, since their second peak in 1997 they have then steadily reduced to their lowest level since 1990.

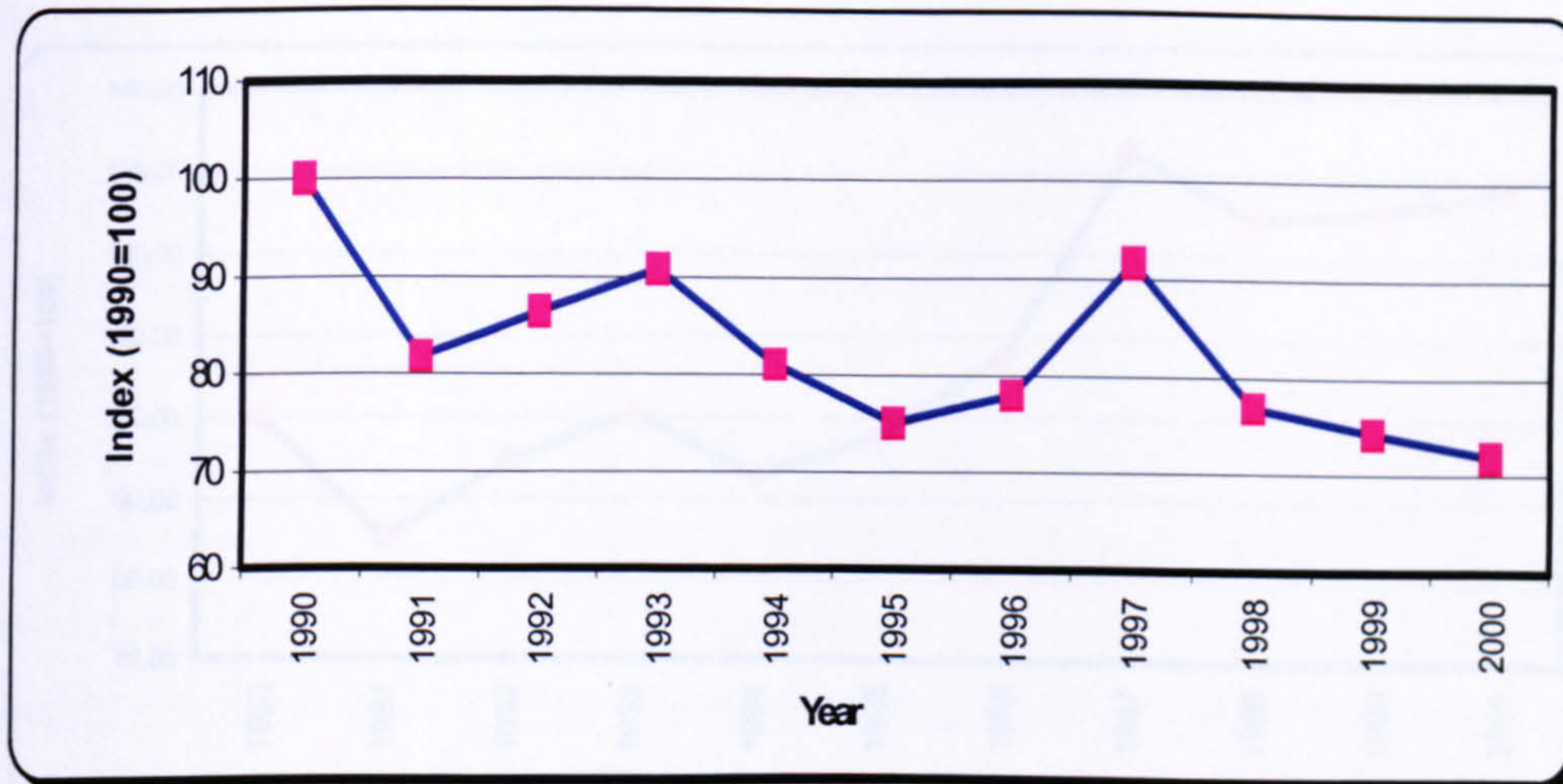


Figure 6.1.6 Olympic Airways labour costs in deflated prices (index) (Olympic Airways, Financial Department)

The 1993 labour cost increases were as a result of the state intervention in the carrier's operation, where the frequent management changes (election year) led the firm to lose control of costs. The 1997 rise was as a result of the significant wage increases and the compensation of 8.5 bn GRD to redundant employees, discussed earlier.

It is worth noting that although the two restructuring plans lead to a decrease in the number of employees (see table 3.1), the labour cost per employee increased during the examined period (see figure 6.1.7). Overtime was a significant contributing factor, as a large part of the carrier output was produced through overtime, as well as other expenses, e.g. out of base allowances, which were out of the management control. The generous wage increases given in order to gain the support of employees and their unions also contributed.

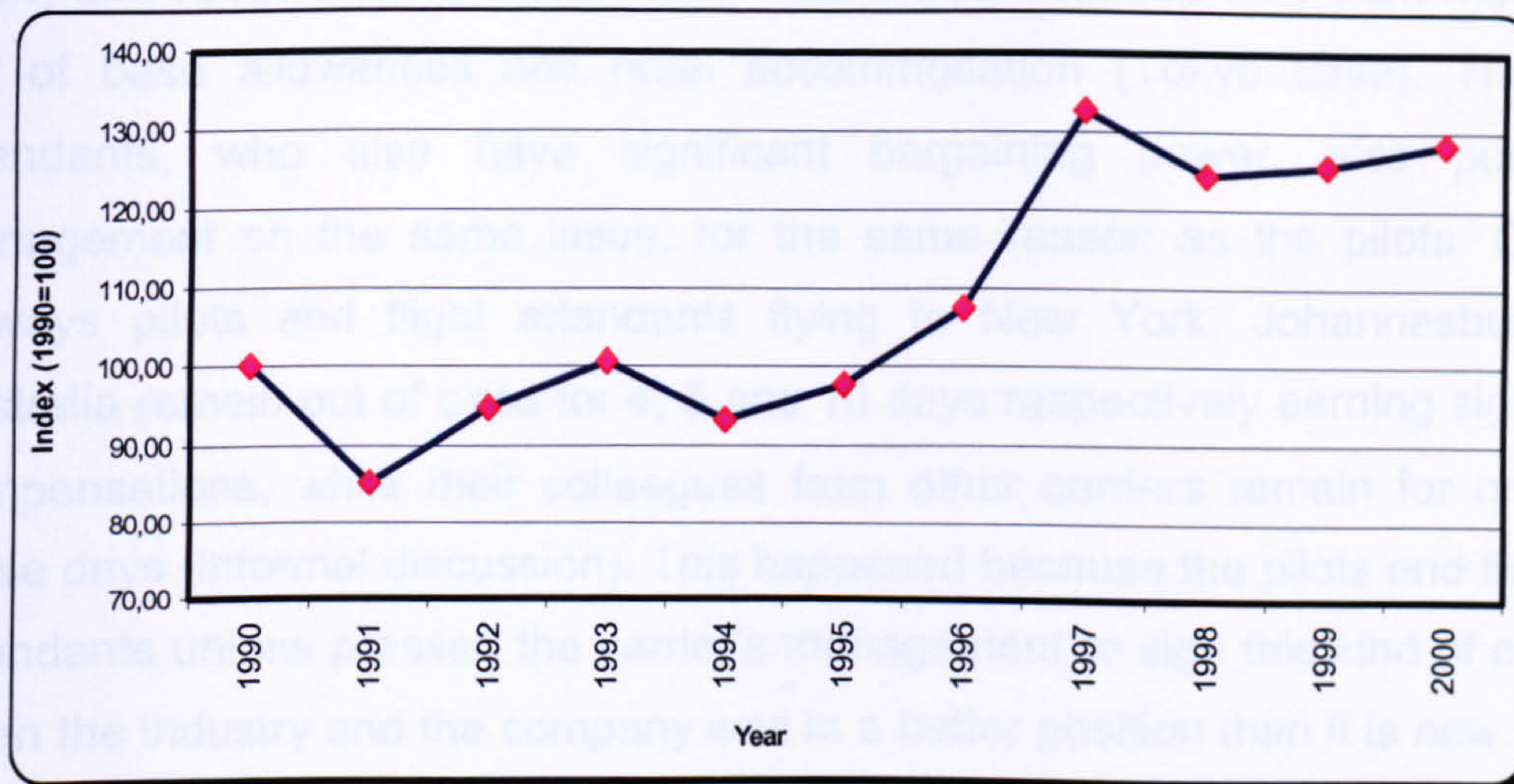


Figure 6.1.7 Olympic Airways labour costs per employee in deflated prices (index) (Olympic Airways, Financial Department and IATA WATS, 45th 2001 Edition)

Therefore, Olympic Airways should adopt more efficient labour cost management practices in order to control these costs better. Although, Olympic Airways has a significant cost advantage over its main scheduled rivals due to lower staff wages, the carrier has not exploited these to date, as done by the Asian airlines, who offer an attractive, superior product. This will be particularly important into the future as Olympic Airways is having to compete with low cost and charter carriers which now dominate in the Greek market offering lower fares than Olympic Airways does.

Olympic Airways employees are highly unionized at almost 99 per cent. Three groups of employees are dominant through their strong unions and their bargaining power. These groups of employees press the carrier's management for more benefits. The pilots union represents the permanent force in the Olympic Airways power structure, in effect controlling many of the airline's functions and they will resort to strike action whenever their position is threatened (Aviation Strategy, Oct. 2000, pp. 6). Pilots out of base allowances and hotel accommodation are a significant contributor to the carrier's high labour costs. Thus, pilots, through their strong union, press Olympic Airways management to

open, and to retain, unprofitable long haul routes because they earn more from out of base allowances and hotel accommodation (Tokyo case). The flight attendants, who also have significant bargaining power, also push the management on the same issue, for the same reason as the pilots. Olympic Airways pilots and flight attendants flying to New York, Johannesburg and Australia remain out of base for 4, 5 and 10 days respectively earning significant compensations, while their colleagues from other carriers remain for only half these days (informal discussion). This happened because the pilots and the flight attendants unions pressed the carrier's management to sign this kind of contract when the industry and the company was in a better position than it is now. These out of base allowances and hotel accommodation are a significant contributor of the carrier's high labour costs.

Olympic Airways management needs to better control these costs through better rotation (schedule) of its aeroplanes and its pilots and flight attendants in order to reduce the out of base days. The contracts with these two groups of employees should also be renegotiated and unprofitable long haul routes should be re-examined. This should be possible, despite the threat of strikes as, except for the long strike of the flight attendants in 2003, where the management had to employ temporary staff, no other strike has taken place since 1998 (when the flight crew reacted to the requirements of the second restructuring plan during January-March 1998).

Mechanics also push the carrier's management, mainly through work slowdowns, in order to earn significant amounts of overtime pay. The solution of outsourcing for maintenance should be examined by the carrier's management in some cases.

The level of Olympic Airways labour costs has not allowed the carrier to adopt a cost leadership strategy, as described by Porter (1980), during the period

studied. Thus, the carrier did not manage to exploit its lower labour wages compared to its main rivals and management should focus on this advantage.

6.1.3 Olympic Airways Sales Promotion and Advertising costs

Sales promotion and advertising costs are always under a great deal of consideration for reduction by the airline executives, particularly in tough times for the industry, as this is the easiest cost element to reduce. This is highlighted in figure 6.1.8, which shows a significant reduction in these costs between 1990 and 1998.

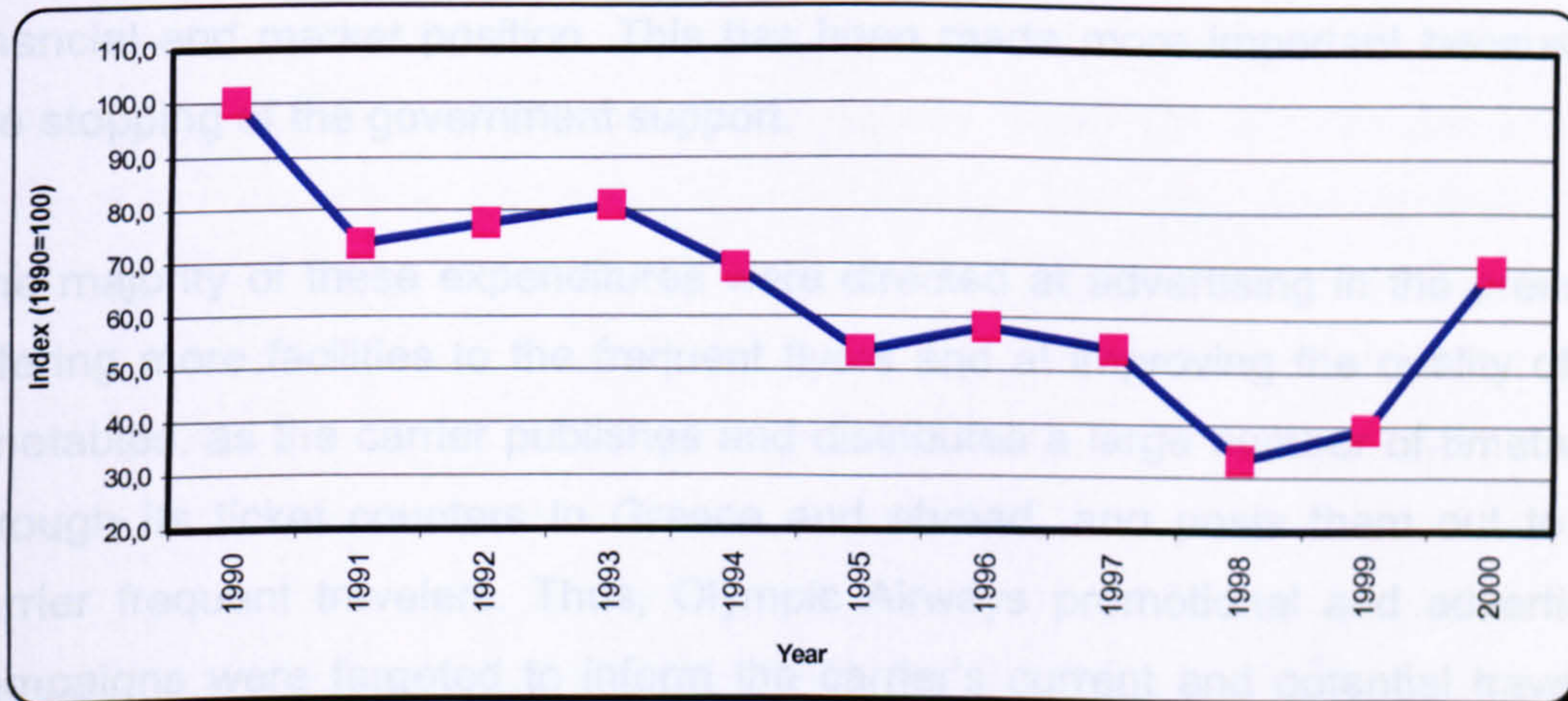


Figure 6.1.8 Olympic Airways sales promotion and advertising costs in deflated prices (index) (Olympic Airways, Financial Department)

The carrier spent more on sales promotion and advertising in the period 1990-1993 than in subsequent years. This was possible due to the state support of the carrier via significant subsidies. However, in this period the international competition was restricted and Olympic Airways had a monopoly in the domestic market. Therefore, spending on sales promotion and advertising during this period was less important than in the following years. Since 1994, these costs have declined as a consequence of the implementation of the first restructuring plan, except for a small increase observed in 1996. In this year the competition

started to increase in the international markets and some private Greek carriers appeared in the domestic market. In order to face this competition Olympic Airways had to offer significant discounted fares and spend money on advertising campaigns to promote this fact (5th interview). The lowest level for sales promotion and advertising costs was in 1998 during the implementation of the second restructuring plan. Since 1999, these costs have increased due mainly to the intense competition in both domestic and international markets. This increase in competition has required Olympic Airways to spend more advertising the advantages of their offerings over competitors. In addition, since 1999 the more intense competition – mainly in the domestic market – has led Olympic Airways to invest more in differentiation strategies, in order to maintain or to improve its financial and market position. This has been made more important because of the stopping of the government support.

The majority of these expenditures were directed at advertising in the press, at offering more facilities to the frequent flyers and at improving the quality of the timetables, as the carrier publishes and distributes a large number of timetables through its ticket counters in Greece and abroad, and posts them out to the carrier frequent travelers. Thus, Olympic Airways promotional and advertising campaigns were targeted to inform the carrier's current and potential travelers and to promote new routes, schedule improvements to existing routes, the carrier's Frequent Flyer Programme (ICARUS), new discounted fares, and new services offered (e.g. the introduction of the business class service in domestic destinations in 2000). Given the pressure on costs, airlines can use other less costly methods to promote and advertise their offerings, such as undertaking common campaigns with other organisations, by providing complimentary tickets, or on-board advertising etc. This method has also been adopted by Olympic Airways and common promotional campaigns were undertaken in co-operation with the Greek National Tourist Office (GNTO) and the new Athens International Airport (AIA). Adopting this policy offers Olympic Airways a way of minimising its

spending on advertising and promotion whilst simultaneously increasing the effectiveness of its campaigns.

The key strength of Olympic Airways is that it has a significant advantage over its competitors, mainly the new entrants, through its strong brand, which is easily recognised by travellers around the world. This may assist the carrier, through the right promotional and advertising campaigns, to achieve a higher penetration of the market.

6.1.4 Costs for On-board Passenger Travel

Investments for upgrading on-board service can become an important differentiation advantage for airlines. Lovegrove (2000, pp. 79) identifies that, in the highly competitive air transport environment, food and drink is one of the most important attractions for the passenger. Thus, meals, refreshments, plates, cutlery, newspapers and magazines and other consumables can significantly differentiate the airline's offering product. However, the deregulation of the industry and the subsequent increase in competition has lead firms to focus on cutting these costs, with the result that consumers have been taught not to expect much (Dempsey and Gessel, 1997, pp. 367). This is despite the fact that the on-board passenger travelled costs are not particularly large compared to the other cost items

The discussion in this section focuses on all the on-board amenities that Olympic Airways provides to its passengers, such as catering, refreshments, newspapers and magazines and all other on-board amenities e.g. complementary gifts given to passengers, such as blankets and pillows, gifts for children, etc, but does not include flight entertainment. The author has analysed this cost separately in the following section 6.1.5 as it alone can constitute an important differentiation advantage.

As far as Olympic Airways is concerned, the main proportion of this cost is catering cost. Olympic Airways offers a Mediterranean cuisine (adjusted to non Hellenic passengers) on-board and its main provider is a subsidiary of the company, named Olympic Catering, which recently went through privatisation. It also offers upgraded meals for executive travellers and meals for specific passengers groups are offered, such as children, diabetic, vegetarian, etc. All the refreshments are offered free of charge to both business and to economy passengers, which is not the case with most other charter airlines, who charge for drinks offered to economy class passengers and is very different to the low cost carriers, who charge for everything extra that they offer on-board. In addition, some scheduled carriers charge for extra drinks or to offer champagne to economy class passengers. Thus, Olympic Airways has an advantage over these carriers.

In terms of newspapers, Olympic Airways offers most of the Greek and international newspapers and magazines free of charge, with priority to the business passengers.

The extra amenities offered amount to a significant differential advantage over low cost carriers, many charter airlines as well as some scheduled airlines, who also offer less than Olympic Airways, but of course also adds to the carrier's costs.

As can be seen from figure 6.1.9, on board passenger travel costs have generally been increasing since 1990 but have also shown two periods of reduction between 1993-1995 and 1997-1999 due to the carrier's management strategy towards cost minimisation brought about through the introduction of the two restructuring plans. These cost reductions were achieved, in both 1994 and in 1999, through the carrier's management decision to re-design the food tray, removing some items and decreasing the size of some others (cheese, salads,

etc.) in order to “economise some funds and simultaneously not to change too much the image of the carrier’s well known food tray” (5th interview).

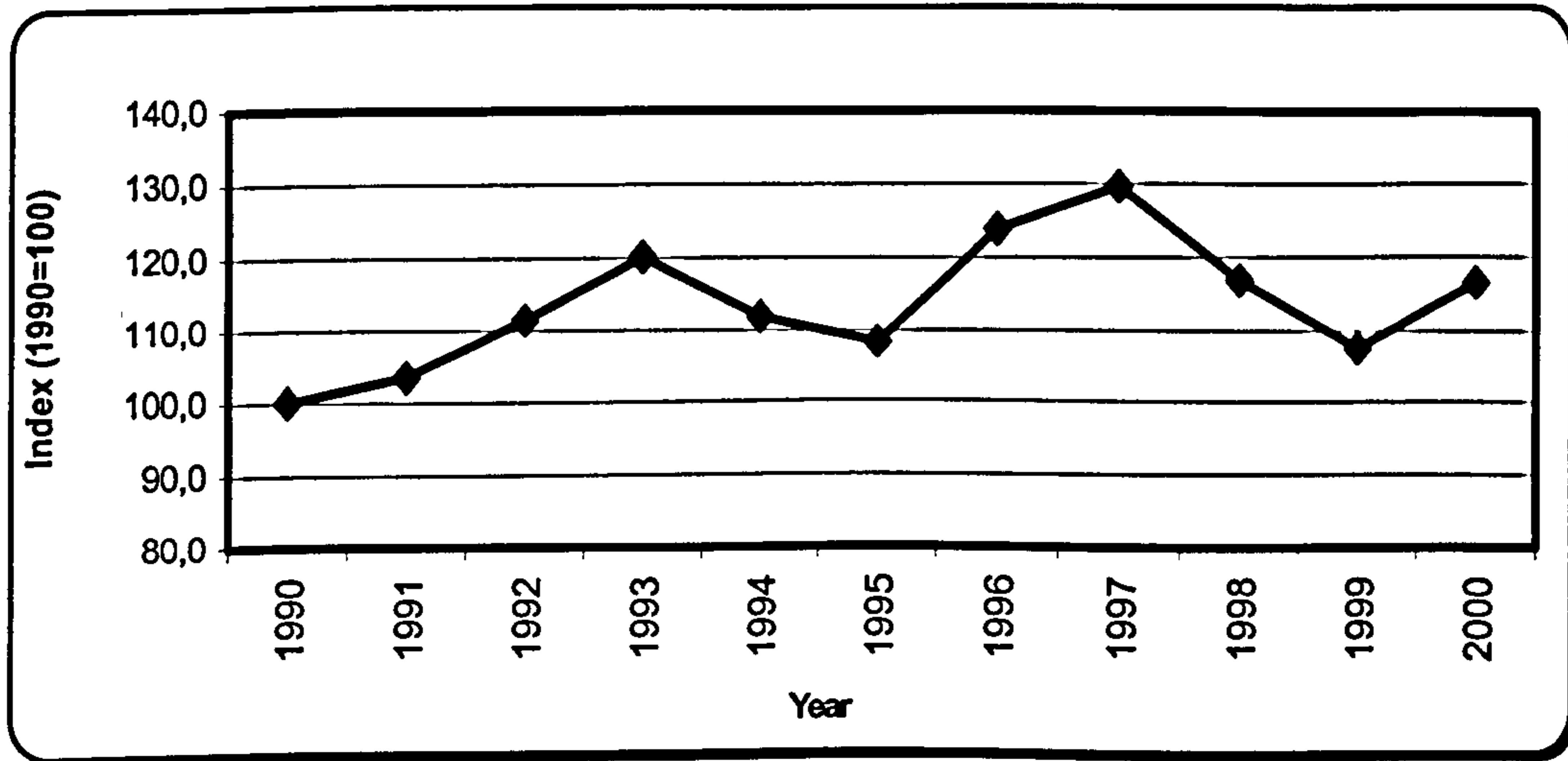


Figure 6.1.9 Olympic Airways on board passengers traveled costs in deflated prices (index) (Olympic Airways, Financial Department)

Not captured by figure 6.1.9 is the more recent introduction of the business class in the domestic market (in 2000) and the improved service offered to these travellers. This has increased the carrier’s costs but has also gained the carrier an extra 140,000 passengers, in the first year of operation, who are all paying higher fares for this service.

Given the success of this differentiation strategy, Olympic Airways should continue to invest in upgrading its on-board service in order to achieve a differentiation advantage over its competitors. However, this investment should be combined with investment in other on-board facilities such as advanced flight entertainment, improvement of flight crew behaviour, upgrading aeroplanes interior design, and so on, in order for the carrier to achieve a coherent differentiation advantage. It will also require the close and continuous monitoring of what the competitors do regarding their on-board services in order to maintain this differential advantage. Finally, this will also require the airline to inform its

passengers about the advantages offered, the quality and quantity of on-board catering and refreshments provided, through advertising campaigns. This will of course have the effect of increasing both the on-board passenger travel costs as well as the promotion and advertising costs, however, the subsequent increase in passengers travelling on the higher price tickets should compensate.

The cost items discussed in the next few sections (6.1.5 – 6.1.10), are not large cost items for Olympic Airways, however, the carrier could still make significant savings in these areas, which is going to be important if the carrier's management decides to focus more on cost minimisation. However, any costs savings should be done carefully as these areas are also key areas for creating important differentiation advantages for Olympic Airways. They are also areas where poor performance could significantly undermine the carrier's competitive position.

6.1.5 Olympic Airways In-flight Entertainment costs

This section looks at the costs associated with the video and radio facilities offered by Olympic Airways to its on-board travellers. This is a very difficult area for airlines to make cost reductions because flight entertainment is a basic differentiation element for many airlines, which tend to invest heavily in this category in order to differentiate themselves from their competitors. These amenities are particularly important for those passengers who travel longer distances. Thus, the longer the trip, the more likely a carrier is to offer flight entertainment amenities, even for passengers who travel in economy class (Dempsey and Gessel, 1997, pp. 266). This suggests that carriers should not ignore the economy class passengers and should offer them a high level of in-flight entertainment services, which is interesting given that these passengers are the target group of the low cost – low fare airlines, which offer very little in the way of in-flight entertainment.

As far as Olympic Airways is concerned, figure 6.1.10 presents that this cost was low for most of the 1990-1997 period, but increased in 1992-1994. This increase can be explained by the introduction of video and audio equipment into the carrier's aeroplanes and the purchase of two A300-600ER and one B737-400 with advanced audio and video facilities. In the following years (1995 to 1997) the carrier did not spend as much on this category because all the aeroplanes that were used for long flights already had advanced in-flight entertainment services. The first restructuring plan and the lower competition mainly in the domestic network also contributed to this drop in costs between 1995 and 1997. The introduction of more modern and newer aeroplanes (A340-300 at the beginning of 1999) with advanced technology, in video and audio facilities and the intense competition lead Olympic Airways to significantly increase their investments in these facilities in 1998-2000 period. In addition, in 2000, telephones were also fitted into the carrier's medium and long haul aeroplanes (Olympic Airways Public Relations Division data and informal discussions).

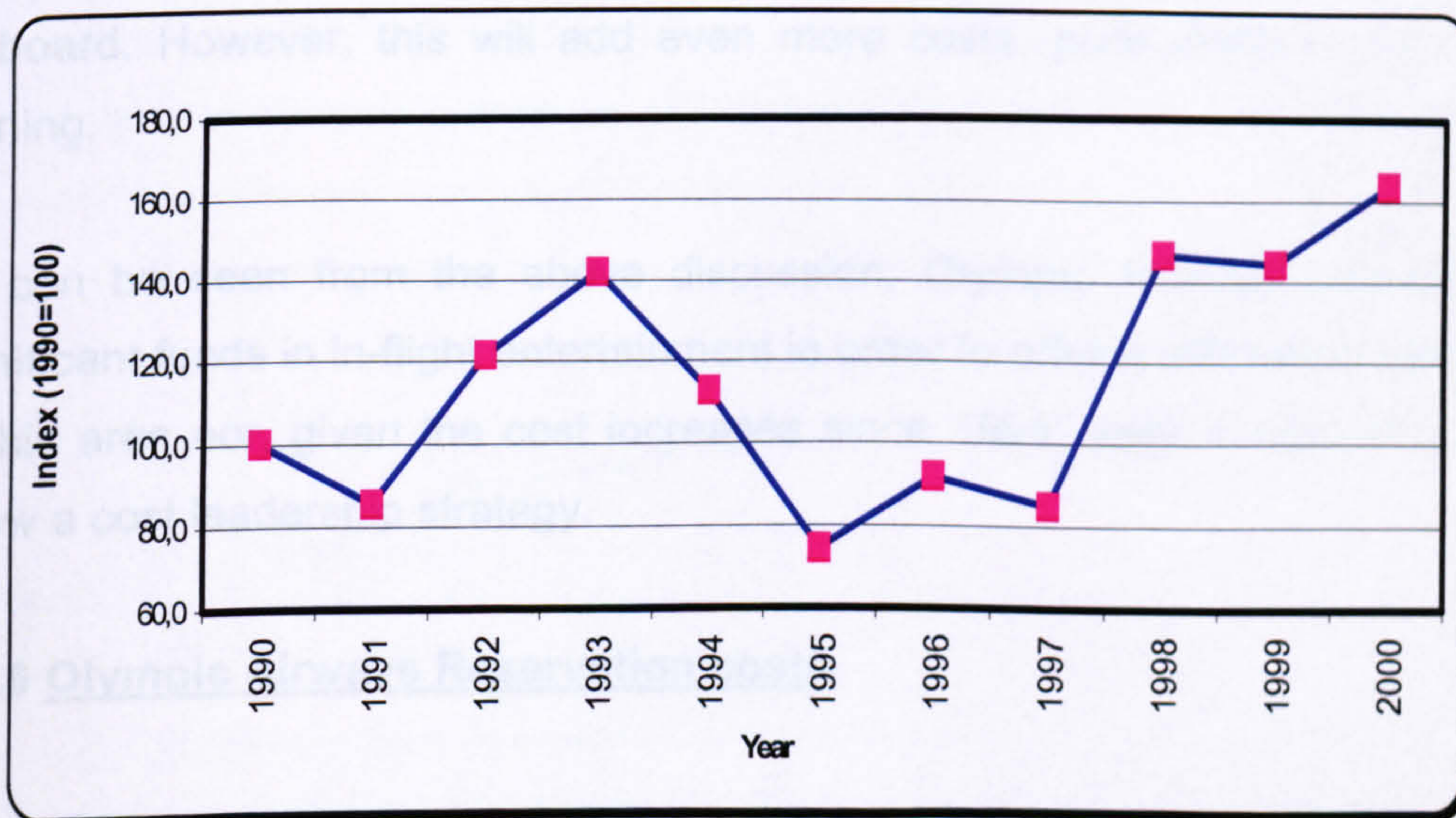


Figure 6.1.10 Olympic Airways in-flight entertainment costs in deflated prices (index)
(Olympic Airways, Financial Department)

The improvements Olympic Airways has made in its in-flight entertainment on its long haul routes, accompanied with the lower fares that the carrier offer in some cases (directed mainly to the expatriates traffic) could become an attractive differential advantage over its competitors which would, hopefully lead to increased load factors. The key question however is whether the increased revenues from adding these services to these routes will cover the higher costs. Also, in order to achieve this differential advantage over competitors, Olympic Airways is going to have to spend more on this direction in order to compete with the other domestic competitor carrier, Aegean Airlines, which offer a good in-flight product. This will further impact on costs and the likelihood of breaking-even.

Another issue to be taken into consideration is the fact that in-flight entertainment alone does not make the difference. This service must be backed up by courteous, friendly and helpful cabin crew. Singapore Airlines is the pioneer on the board offered service and Olympic Airways should learn from what they offer on-board. However, this will add even more costs, particularly in the area of training.

As can be seen from the above discussion, Olympic Airways did not invest significant funds in in-flight entertainment in order to offer a differential advantage in this area nor, given the cost increases since 1998, were costs minimised to show a cost leadership strategy.

6.1.6 Olympic Airways Reservation costs

A sophisticated computer reservation system (CRS) is an important marketing tool for airlines. Through it a carrier can communicate with the travel agents and implement a more efficient pricing policy. Therefore, if a carrier focuses on minimising this cost it must be aware that this might limit its ability to offer a differentiated pricing strategy.

Reservation costs is the money a carrier spends on maintaining and upgrading its CRS system as well as the booking fees that a carrier pays to the global distribution systems (GDS). These costs are part of the distribution costs, which represent around 17 to 18 per cent of the total operating costs of most international airlines. Of these distribution costs, reservation costs and ticketing represent around 31 per cent, and payments to the computer reservation systems (CRS) an additional 7.1 per cent (Doganis, 2001, pp. 166). It is clear that carriers should focus on controlling these costs and new technology provides an opportunity to do this.

Figure 6.1.11 does not show these costs for the 1990-1992 period because they were too small. However, the purchasing of the Swissair's computer reservation system, of a yield management system from Sabre in 1992, and of AIRFARE, a pricing system from SITA, by Olympic Airways has lead to the gradual increase in these costs from 1993 to 1997. The carrier also upgraded its computer reservation system (HERMES I) to more advanced one (HERMES II) in 1995, and, since October 1997, has invested more in order to promote its position (schedule programmes and fares) in the global distribution systems (GDS) better.

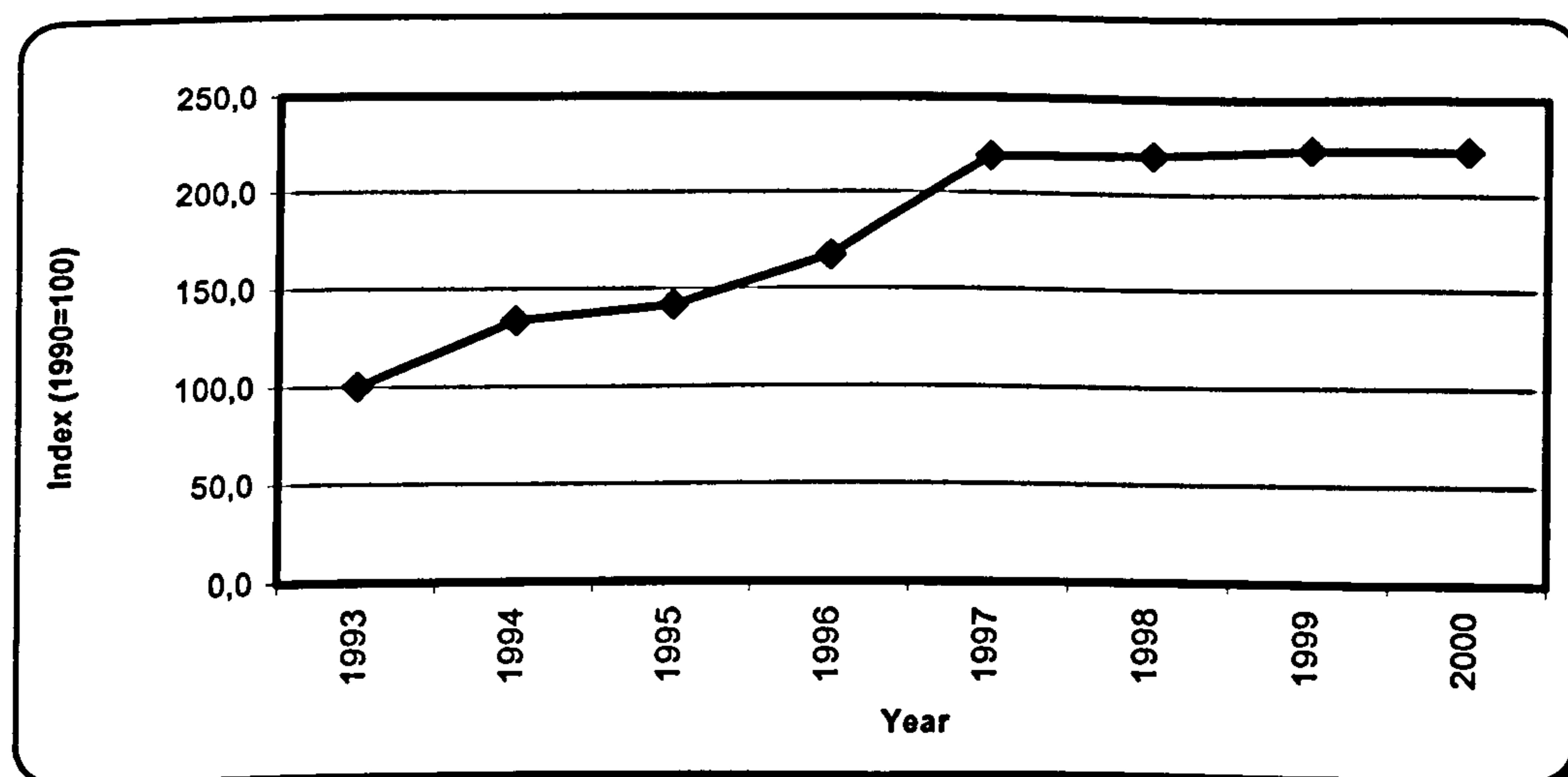


Figure 6.1.11 Olympic Airways reservation costs in deflated prices (index) (Olympic Airways, Financial Department)

An efficient reservation system provides customers with a better service because a carrier can collect information concerning customers' behaviour, which can

allow them to tailor their products in accordance with this information. The opportunities presented by an advanced CRS can constitute an important differentiation advantage.

The improvements in the CRS have allowed Olympic Airways to implement new pricing policies that, through the appropriate yield management, have contributed to an increase in the carrier's revenues. Since 2000, a more flexible yield management policy has been adopted by Olympic Airways, offering an advantage to its passengers by having more pricing choices (more booking classes were offered).

However, despite the investment in the systems, Olympic Airways did not offer superior reservation services to its passengers in period 1990-2001 and, thus, did not achieve a differentiation advantage through their reservation services for a number of reasons.

In order to be effective an airline's reservation system should be combined with educated and appropriate numbers of staff in order to offer a superior service to travelers. Significant investments by the Olympic Airways management should be directed to improve the service that this group of employees offers to the carrier's passengers. These employees are the first point of contact for the carriers' customers.

In terms of Olympic Airways, its telephone reservations department appears to offer opportunities for improvement. The 'not answered' calls are relatively high, at 14 per cent. Also, during peak seasons, waiting time increases to two and a half to three minutes on average (Olympic Airways, Telephone Reservations Sub-Division, annual reports, 1995 and 1997).

One of the main problems with Olympic Airways reservation department is the shortage of qualified staff over the last few years, since a large number of

experienced staff were made redundant in 1999. Therefore, they now have to employ temporary staff who have had no significant training provided.

In order to better monitor their reservation staff, the Product Management Director stressed that *“sophisticated procedures that measure the reservation personnel utilisation and performance evaluation, such as ‘telephone rings before the customer gets an answer per employee’, or ‘how many telephone calls a reservation agent answer per day’ should be established”* (5th Interview).

This monitoring of ‘front line’ personnel, utilisation as well as performance, by management is in line with Fragoudakis-Romeos (1991, pp. 281), who identifies that it has an important affect on company image and customer relations.

In addition to the strict control of reservations costs through sophisticated CRSs and training the reservation staff in order to make more efficient use of the system and offer a better service to customers, more dramatic cost reductions can be achieved by maximising the opportunities offered by e-commerce. By using this technology, passengers can by-pass the global GDSs, to whom the airlines would normally pay \$3.00 or more per sector booked (Doganis, 2001, pp. 168). A toll free number (0801-444444) was also established for passengers to call the carrier’s reservation department in 2000 (1st July). Since 2002, Olympic Airways has established an internet booking system but it is not used widely. Moreover, a toll free number was also established for passengers to call the carrier’s reservation department in 2002. In 2005, the carrier intends to use the e-ticketing widely (5th Interview). The lack of utilisation of these systems by the passengers is due to the fact that no advertising campaign has been implemented to promote these services.

6.1.7 Olympic Airways Passengers Compensation due to Irregularities

This cost includes passengers' compensation due to delayed and cancelled flights, due to lost baggage and due to ticketing/reservation mistakes. Figure 6.1.12 depicts that this cost has increased gradually in all the examined period except for 1998 where there was an exceptional peak in costs. This peak can be explained by the employee strikes, which lead to a large number of cancellations, with significant effects on Olympic Airways costs and revenues.

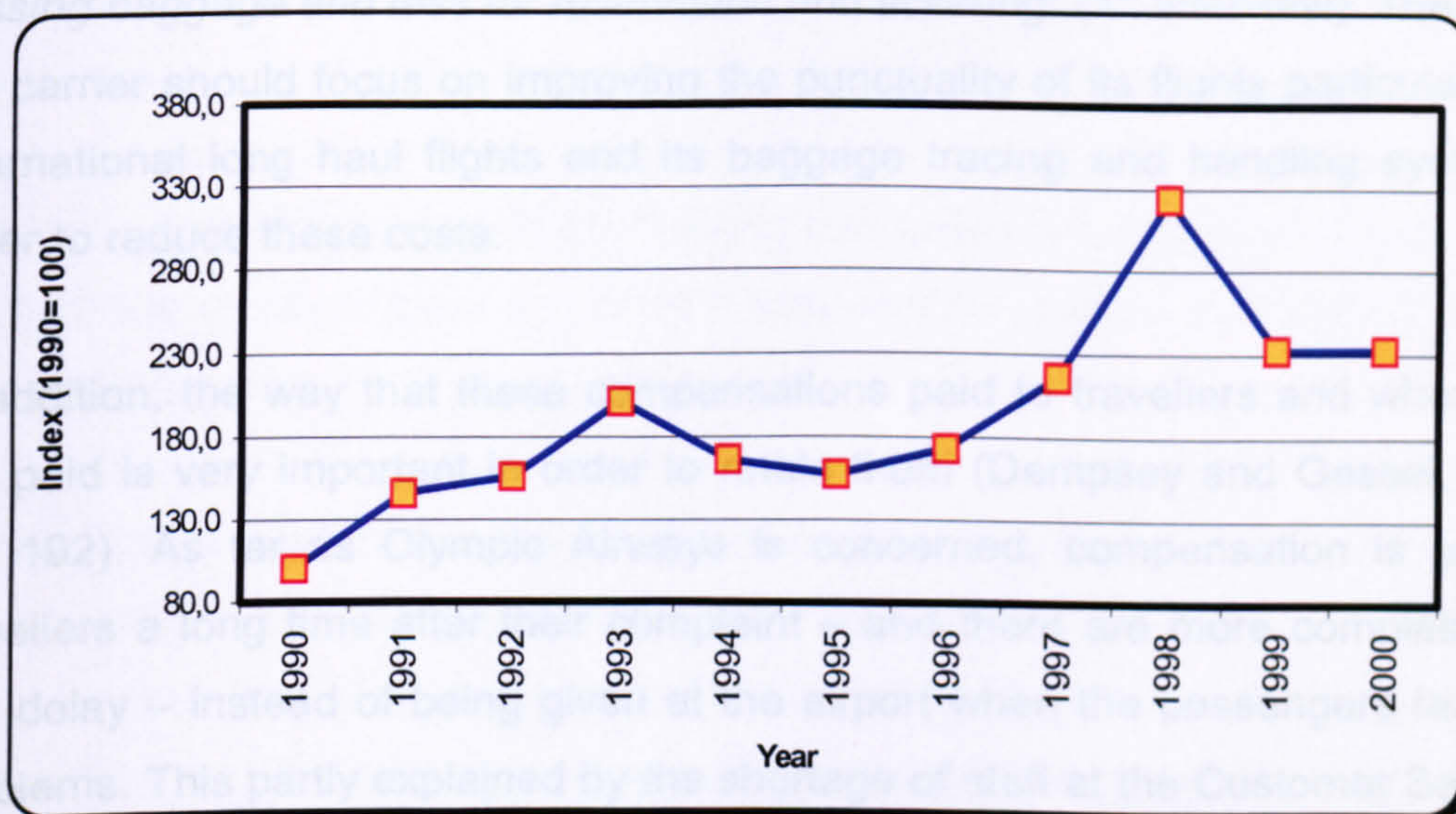


Figure 6.1.12 Olympic Airways passengers compensation costs due to irregularities in deflated prices (index) (Olympic Airways, Financial Department)

The increase in these costs can be, in the main, explained by the EU regulations which have been imposed since 1992 in favour of the customer. However, more efficient airlines tend to decrease this cost, offering more on-time flights (higher punctuality) and a well organised baggage tracing system. Furthermore, an efficient customer relations department can answer and solve customer complaints, minimising the cost for an airline.

As far as Olympic Airways is concerned, the development of the new Athens International Airport (AIA), since 2001, is expected to contribute to the minimisation of these costs. According to information collected from informal

discussions, this cost actually remained at the same level in 2001, because Olympic Airways and the AIA needed some time to run smoothly in the new conditions, but was slightly lower in 2002.

Dempsey and Gessel, (1997, pp. 192) identify that it is important to monitor complaints and compensation paid to travellers and devise a remedy in order to improve the service it offers. As far as Olympic Airways is concerned, *“the majority of these compensations are about long flight delays, cancellations and missing baggage and less for reservation and ticketing”* (1st interview). Therefore, the carrier should focus on improving the punctuality of its flights particularly the international long haul flights and its baggage tracing and handling system in order to reduce these costs.

In addition, the way that these compensations paid to travellers and when they are paid is very important in order to retain them (Dempsey and Gessel, 1997, pp. 192). As far as Olympic Airways is concerned, compensation is paid to travellers a long time after their complaint – and there are more complaints for this delay – instead of being given at the airport when the passengers face the problems. This partly explained by the shortage of staff at the Customer Services Sub-division (1st interview).

As can be seen from the information collected and the above discussion, Olympic Airways has not differentiated itself from its competitors through its compensation system during the examined period 1990-2001. This has not been either an area of cost leadership for Olympic Airways, or a part of a service differentiation strategy.

In order to improve in this area it is important for the personnel of the Customer Services Sub-division, which deals with the passengers compensations, to be trained effectively. However, they should also be listened to, becoming an invaluable source of information about customer preferences. At present this

information is not used to help design new services, however the carrier's management should utilise the data and information collected from this department, when designing future services.

6.1.8 Olympic Airways training costs

Dempsey and Gessel, (1997, pp. 257) identify that in an industry with so much human contact between the line personnel and consumers, the attitude, courtesy, and friendliness of flight crew, ticketing personnel and reservation staff can be more important to customers than the quality of food and entertaining on board served (particularly as airlines serve less and less food, and spend less and less on what they do serve). Training can assist employees to improve their abilities and through them to deliver higher quality service to travellers (IATA, March 2002, pp.1).

Figure 6.1.13 depicts the costs for the basic training courses provided by Olympic Airways to all staff in-house but does not include costs that the carrier pays for training abroad (which will be discussed shortly). Training for the reservation and ticketing system are the basic courses which Olympic Airways provides to their employees. Figure 6.1.13 presents that these training costs had been steadily reducing during the 1990-1994 period until the introduction of the customer relations course in 1995, which increased costs in 1995 and 1996 until it was stopped in 1996 following a change in management. The objective of this course was to improve the behaviour of frontline employees in order to offer a better service to Olympic Airways passengers. In 1997, ticketing and reservation training courses were offered to the carrier employees. Since 1997, the staff from the carrier's commercial departments have not had sufficient training (informal discussions).

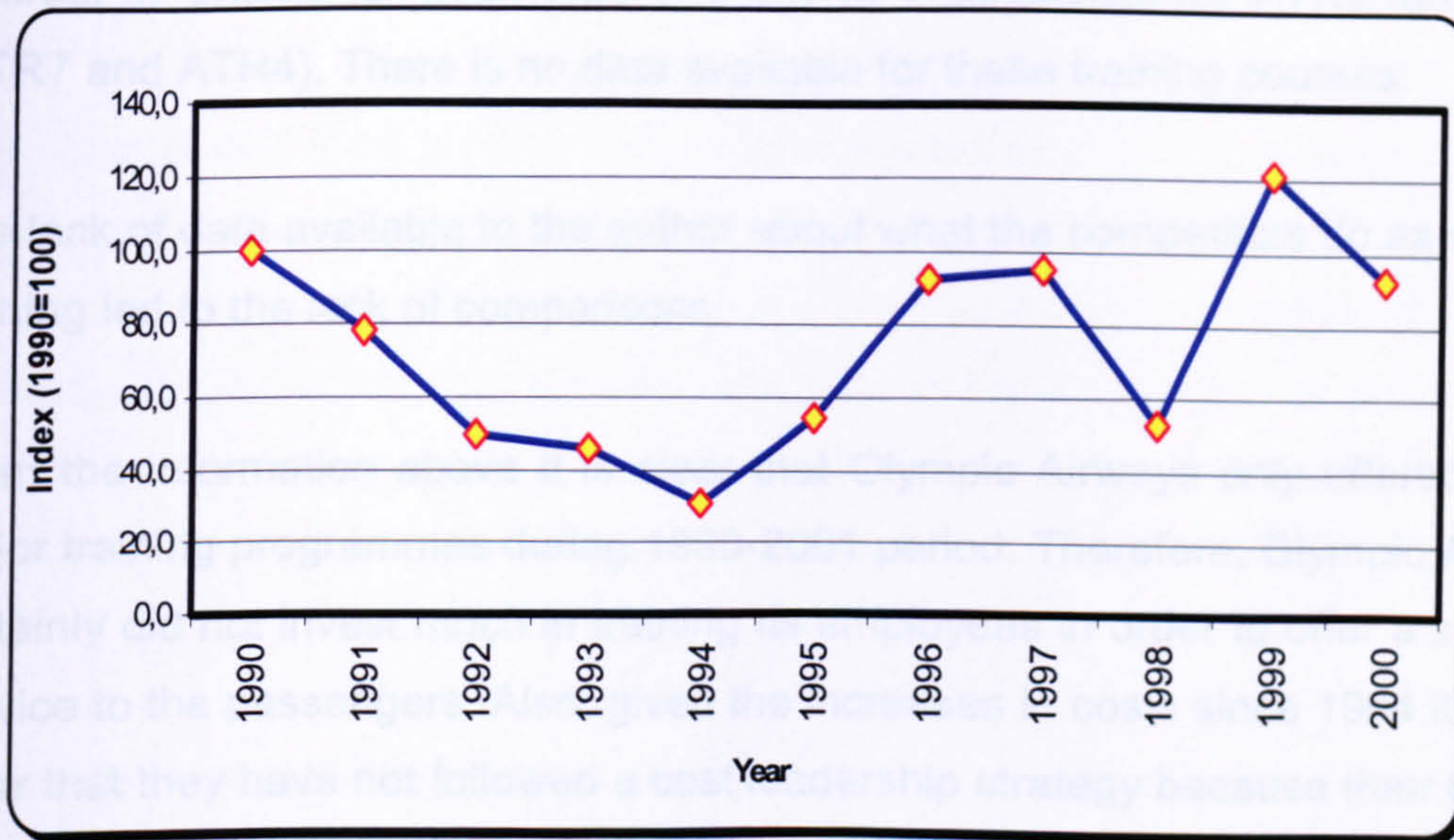


Figure 6.1.13 Olympic Airways training costs in deflated prices (index) (Olympic Airways, Financial Department)

The training costs increased in 1999, when two educational programmes took place. The aim of the first one was to train all the managers who had recently taken their positions, in order to improve their management abilities. The second programme was dedicated to training all the airport staff in readiness for the transfer to the new Athens International Airport (AIA) in 2001. Thus, 2,134 employees were trained on the new facilities that the new airport provided such as passenger boarding, and the baggage handling system, etc. The cost of this programme was 118 million GRD (Olympic Airways, Training Centre, annual reports 1999 and 2000).

Olympic Airways also spent significant funds in educate its personnel in training centres abroad. These educational courses were mainly concerned with training flight crews on the new technology in the carrier's new aeroplanes. Thus, when the carrier acquired or leased new aeroplanes (1991, 1998, 1999, 2003) flight crews was trained on the aeroplanes new technology. The same was true for the carrier's engineers. Following the initial training abroad, a large number of educational programmes take place in Olympic Airways two aeroplane simulator

centres, in Chania for B734 type and one in Thessaloniki for ATRs turboprops (ATR7 and ATR4). There is no data available for these training courses.

The lack of data available to the author about what the competitors do as regards training led to the lack of comparisons.

From the information above it is clear that Olympic Airways only offered a few major training programmes during 1990-2001 period. Therefore, Olympic Airways certainly did not invest much in training its employees in order to offer a superior service to the passengers. Also, given the increases in costs since 1994 it is also clear that they have not followed a cost leadership strategy because their training costs have not been minimised.

In order to be consistent with the author's earlier suggestions to follow a differential advantage strategy, in terms of on-board amenities, the carrier should offer its front line employees more training in order to offer a higher level of service. This is particularly important given the earlier comments about the importance of highly motivated and trained employees in a labour intensive service industry like commercial aviation. Thus, training should be used to motivate Olympic Airways personnel in order to enhance their productivity and their morale.

6.1.9 Olympic Airways costs for Staff Uniforms

This section assesses Olympic Airways investment in the uniforms for frontline employees. Although, this cost is not too high, the effectiveness of the uniform change is very important and any cutting of costs in this area should take place with extra care as the appearance of a carrier's employees is connected with a customer's image of an airline. Thus, in the customers' eyes, red uniforms are connected with Virgin Atlantic and multicoloured uniforms with British Airways. During the 1990's, airlines simplified their staff uniforms, however since 2003

airlines have been trying to offer something different (British Airways, Air France, Delta Air Lines, etc.) by upgrading the uniform design according to the international and local trends. This is because uniform design is believed to be an integral part of a carrier's marketing strategy and of equal importance with an airline's brand or with the external appearance of aeroplanes (The Wall Street Journal, 25/4/2004, pp.11). As with entertainment costs, employee uniforms are not enough on their own. They must be combined with the appropriate customer oriented behaviour in order to provide a significant differential advantage to an airline.

In the 1970s and 1980s Olympic Airways invested significant funds in changes to the employee uniforms, particularly in Onassis era, when the carrier tended to spend even more than the industry leaders in order to improve the appearance of its staff. This trend was not continued in 1980s. In the Greek domestic market Olympic Airways was the dominant carrier during this period and in the more international routes the competition was limited, therefore, the carrier just spent enough to keep its staff uniforms up to standard.

Figure 6.1.14 shows the costs that Olympic Airways spent on its employees uniforms, for the 1990-2001 period.

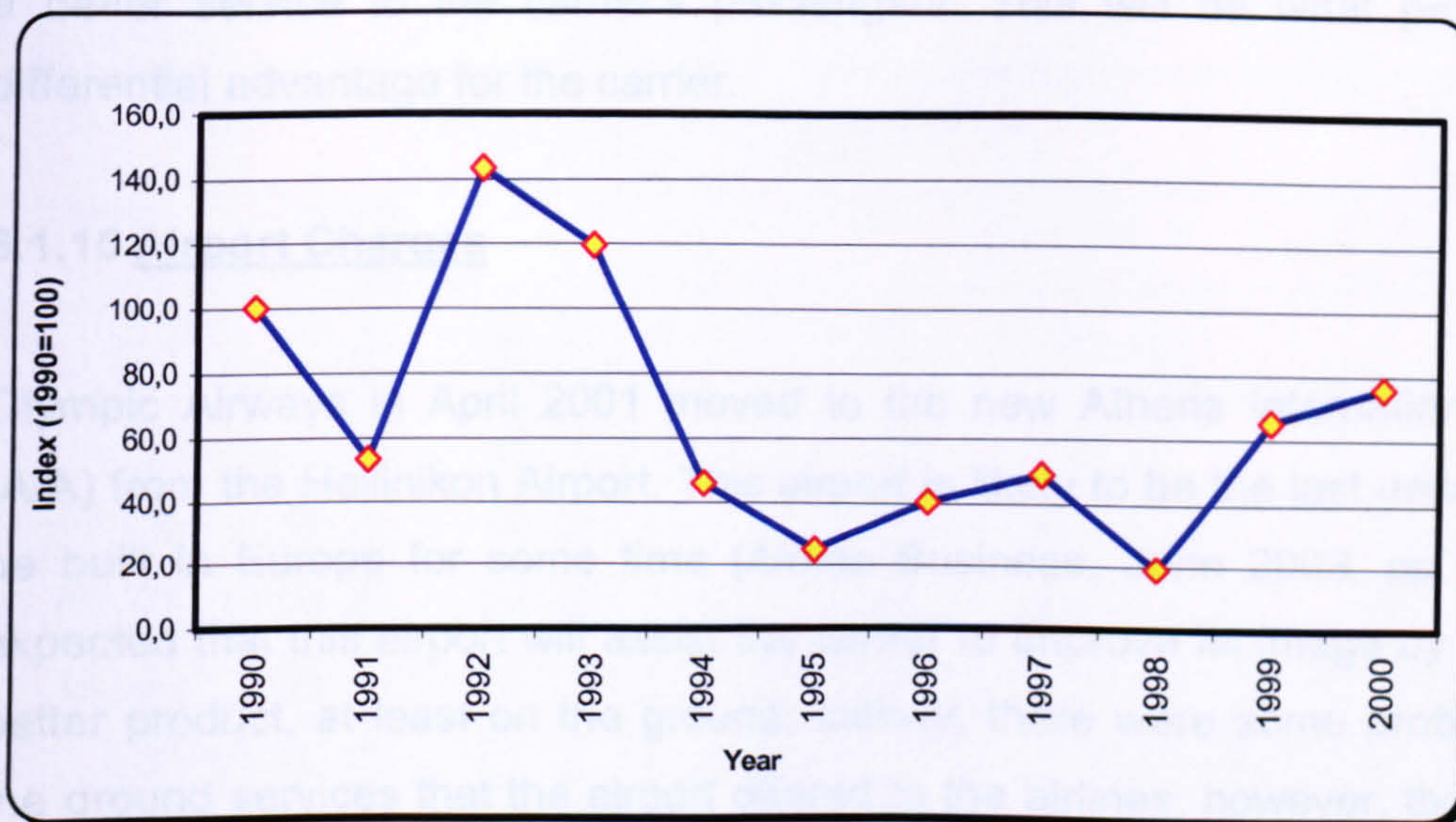


Figure 6.1.14 Olympic Airways uniform costs in deflated prices (index) (Olympic Airways, Financial Department)

There was a significant increase in 1992, due to a campaign run by the carrier's management to improve its ground employee uniforms and to change its flight crew uniforms. In the following years the carrier significantly decreased these costs except for the years 1996 and 1997, when some additional money was spent re-designing the flight crew uniforms. In the years 1999 and 2000 this cost started to increase again due to increased competition, which has forced Olympic Airways to spend more money on its staff appearance in line with competition (Olympic Airways, Public Relations Division, 1990-2001 data).

It is clear that Olympic Airways has, essentially, followed a low cost strategy since 1993 concerning the costs for staff uniforms, only spending what was necessary to keep up with competitors rather than adopting a differentiation strategy. However, in the future it is clear that Olympic Airways should, at a minimum, match the spending of competitors, in order to put forward a consistent message across its cost areas, and view spending on staff uniforms as means of showing that the carrier is interested in its employees appearance, in order to improve the carrier's staff low morale. This should in turn mean that the staff offer

a better service to the carrier's passengers. This will be what provides the differential advantage for the carrier.

6.1.10 Airport Charges

Olympic Airways in April 2001 moved to the new Athens International Airport (AIA) from the Hellinikon Airport. This airport is likely to be the last new airport to be built in Europe for some time (Airline Business, June 2003, pp. 54). It is expected that this airport will assist the carrier to improve its image by offering a better product, at least on the ground. Initially, there were some problems with the ground services that the airport offered to the airlines, however, the situation has since been significantly improved. Olympic Airways is the dominant carrier at the new Athens International Airport (AIA) holding 45.2 per cent of the airport flights, Aegean Airlines operate 21.8 per cent of the airport's flights, and Lufthansa is the next largest with 3.0 per cent of the flights (Athens International Airport, Annual Reports 2000-2003). The latest world airports survey puts Athens International Airport in 86th place in terms of passengers carried (Airline Business, June 2004, pp. 54).

However, this new airport is more expensive than the Hellinikon airport was, about 50 per cent more (Olympic Airways, Financial Department). This has significantly increased the carrier's already high costs.

Figures 6.1.15 and 6.1.16 present the landing and parking fees in EUROS per hour that various airports charge the airlines for B737-400 and A340-300. These are the charges that a carrier has to pay if the aeroplane parked on the airport's apron, taxiways ramps or hangars (Doganis, 1992, pp. 66).

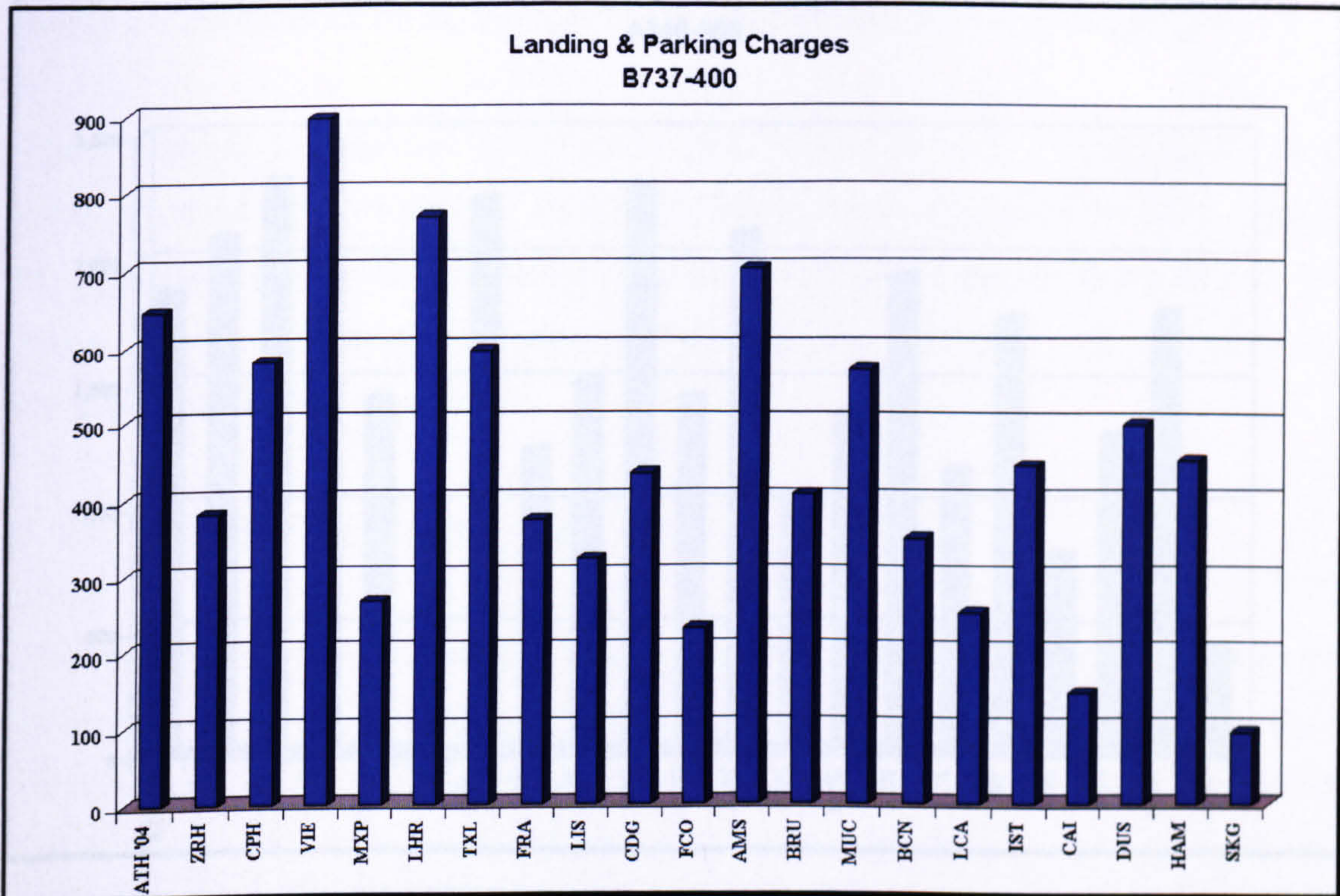


Figure 6.1.15 Landing and parking charges comparative data of various airports for B737-400 in EURO per 90 minutes (Athens International Airport – Marketing Department -2004 data)

where ATH=Athens, ZRH=Zurich, CPH=Copenhagen, VIE=Vienna, MXP=Malpensa, Milano, LHR=London Heathrow, TXL=Tegel Berlin, FRA=Frankfurt, LIS=Lisbon, CDG=Charles De Gaulle Paris, FCO=Fiumicino Roma, AMS=Amsterdam, BRU=Brussels, MUC=Munich, BCN=Barcelona, LCA=Larnaca, IST=Istanbul, CAI=Cairo, DUS=Dusseldorf, HAM=Hamburg, SKG=Thessaloniki

These two figures show that Athens International Airport is one of the most expensive for both of types of airplanes. However, the airport offers the carrier the chance to improve its product offering and to provide a much better service to its customers using the airport's new and modern facilities. In contrast, Thessaloniki, the Olympic Airways secondary hub airport, is much cheaper than all the other airports and serves the large market area of Northern Greece. In 1995, Olympic Airways management tried to place more emphasis on Thessaloniki flights (3rd interview) but this effort was not supported by the flight crews or their unions. However, Thessaloniki airport is the second largest in

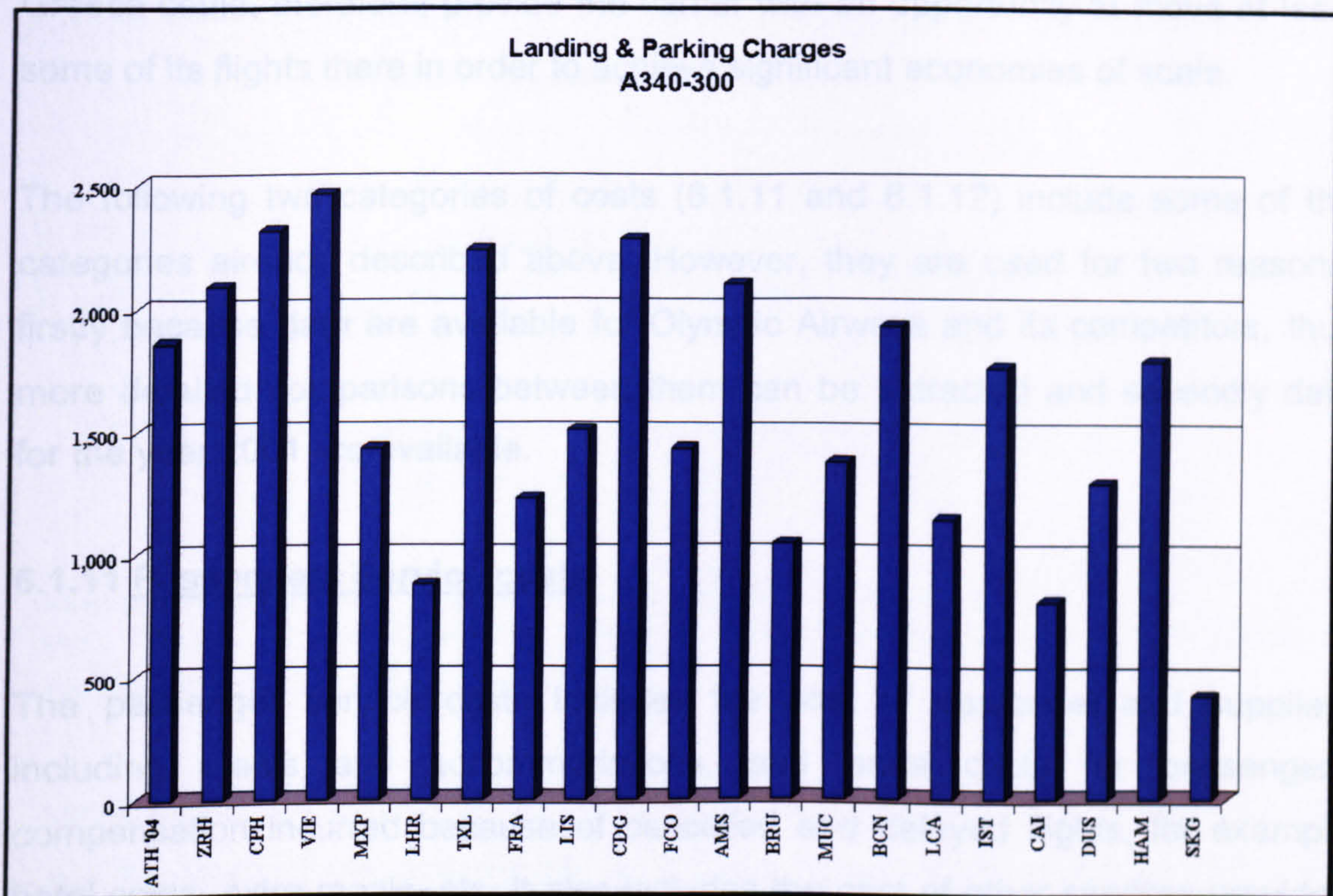


Figure 6.1.16 Landing and parking charges comparative data of various airports for A340-300 in EURO per 90 minutes (Athens International Airport – Marketing Department – 2004 data)

where ATH=Athens, ZRH=Zurich, CPH=Copenhagen, VIE=Vienna, MXP=Malpensa Milano, LHR=London Heathrow, TXL=Tegel Berlin, FRA=Frankfurt, LIS=Lisbon, CDG=Charles De Gaulle Paris, FCO=Fiumicino Roma, AMS=Amsterdam, BRU=Brussels, MUC=Munich, BCN=Barcelona, LCA=Larnaca, IST=Istanbul, CAI=Cairo, DUS=Dusseldorf, HAM=Hamburg, SKG=Thessaloniki

These two figures show that Athens International Airport is one of the more expensive for both of types of aeroplanes. However, this airport offers the carrier the chance to improve its product offering and to provide a much better service to its customers using the airport's new and modern facilities. In contrast, Thessaloniki, the Olympic Airways secondary hub airport, is much cheaper than all the other airports and serves the large market area of Northern Greece. In 1996, Olympic Airways management tried to place more emphasis on Thessaloniki flights (3rd Interview) but this effort was not supported by the flight crews or their unions. However, Thessaloniki airport – the second largest in

Greece could, therefore, provide the carrier with an opportunity to move at least some of its flights there in order to achieve significant economies of scale.

The following two categories of costs (6.1.11 and 6.1.12) include some of the categories already described above. However, they are used for two reasons, firstly because data are available for Olympic Airways and its competitors, thus more detailed comparisons between them can be extracted and secondly data for the year 2001 are available.

6.1.11 Passengers Service costs

The passenger service costs includes the cost of personnel and supplies, including meals and accommodations, and extra costs for passengers compensation incurred because of cancelled and delayed flights, for example hotel costs, extra meals, etc. It also includes the cost of other services provided for passengers, for example blankets and pillows offered to passengers, gifts for children or other group of passengers, etc, the cost of flight kitchens, and passenger service training. This is based on IATA definitions and instructions (2002, pp. 39).

Figure 6.1.17 presents Olympic Airways passenger service costs as a percentage of the total operating expenses against the Association of European Airlines (AEA), which is an average of all the participants airlines, as well as British Airways and Air Portugal (TAP). Data for AEA and the two airlines are used for comparisons reasons because AEA represents all the main scheduled European airlines during the examined period, British Airways is an industry leader concerning the service offered to passengers and Air Portugal (TAP) has many similarities (similar size, similar ownership and financial status, etc.) with Olympic Airways.

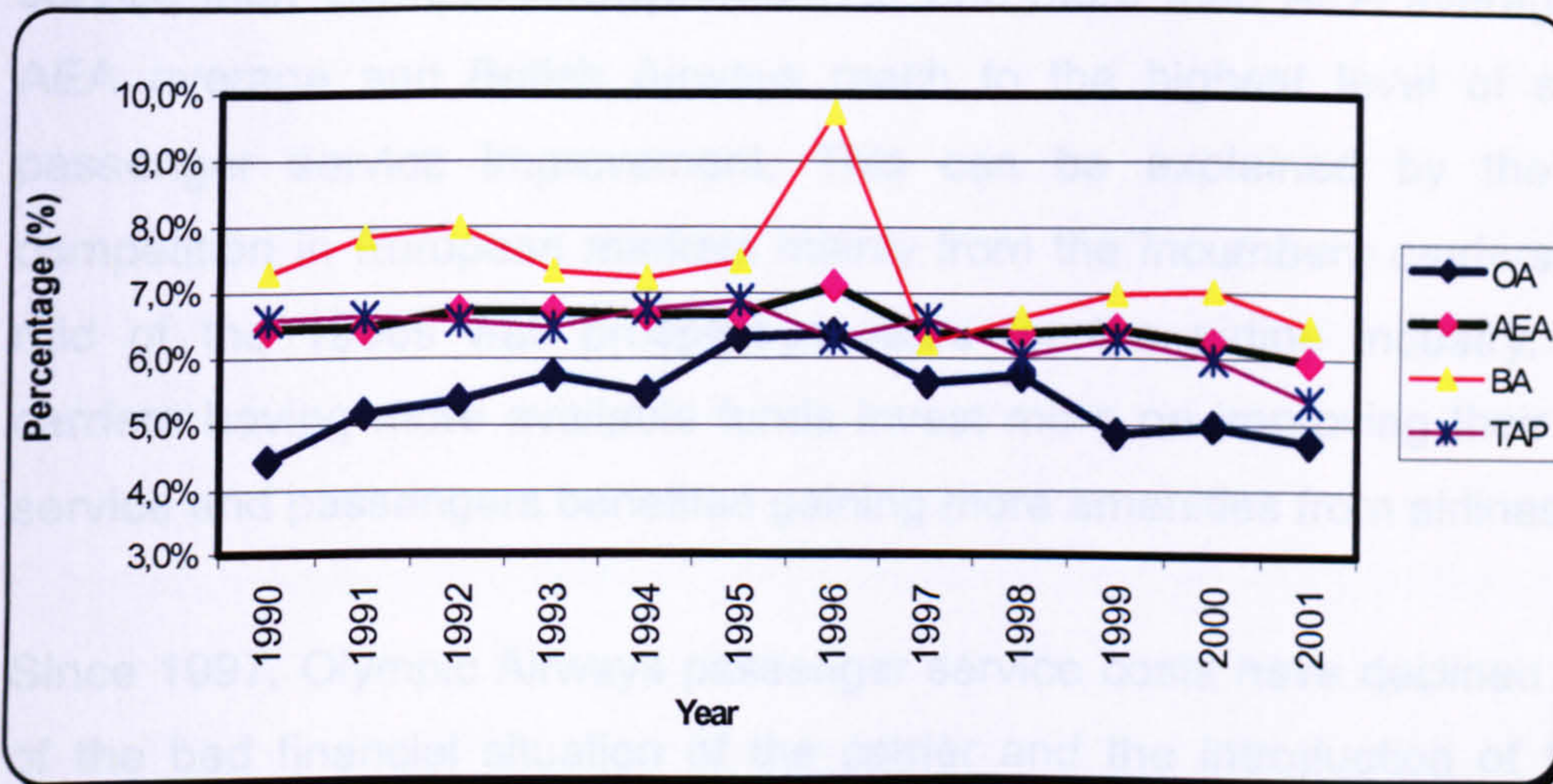


Figure 6.1.17 Passengers service costs vs total operating costs (%) (Association of European Airlines, RB8 Annual data)

Overall, up to 1996, figure 6.1.17 shows a steady increase in passenger service costs for Olympic Airways, except for a slight drop in 1994, which can be partly explained by the introduction of the first restructuring plan, where the main precondition set by the Commission was the carrier to improve its cost position. However, despite this push to reduce costs, Olympic Airways invested more in 1995 and 1996 than any other year during the examined period. This can be explained by the number of new entrants into the Greek domestic market which required Olympic Airways to spend more on its passenger services.

Figure 6.1.17 shows that Olympic Airways invests less in passenger services, as a percentage of operating expenses, than the average of AEA airlines, British Airways (BA) and Air Portugal (TAP) for the whole of the examined period, except at its peak in 1996, where it was just higher than TAP. During the 1994-1995 period, Olympic Airways spent more money to improve the in-flight service. In addition, since 1992 liberalisation of the European airline industry with an increase of competition in international routes had begun and airlines start to invest more in order to improve the offered service. However, in almost all the 1990-2001 period, British Airways invest much more on improving passenger

service than Olympic Airways and TAP and more than AEA average. In 1996, AEA average and British Airways reach to the highest level of spending in passenger service improvement. This can be explained by the increased competition in European markets mainly from the incumbent carriers and in the mid of the 1990s was prosperous years for the airline industry. Therefore, carriers having more available funds invest more on improving their passenger service and passengers benefited gaining more amenities from airlines.

Since 1997, Olympic Airways passenger service costs have declined as a result of the bad financial situation of the carrier and the introduction of the second restructuring plan in 1998. This was problematic given the increase in domestic and international competition and has put Olympic Airways in a worse position than the competition whose passenger service costs have still remained higher. All carriers passenger services costs were reduced in 2001 as a result of the terrorist attack of September 11th and the problems that this event created to the airline industry.

It is clear from the above data that Olympic Airways did not spend enough on passenger services to be offering a differential advantage over its main competitors. Moreover, this was also not implemented intentionally in the examined period in order to minimise costs. But it was the precondition of the restructuring plans that the carrier manage its costs better so it was intentional in 1994 and 1998 but although the carrier increased passenger service costs in 1995 and 1996 they were lower than the other airlines spent and this led Olympic Airways to be 'stuck in the middle', trying to keep up with the new entrants.

6.1.12 Ticketing, Sales and Promotion costs

This category includes pay, allowances and related costs of all staff engaged in ticketing, sales and promotion activities, including sales management. It also includes office, communications, reservation costs and commissions payable by

the Operating Carrier to the Marketing Carrier, when a Free Flow Code Share arrangement is in operation. Further, it also includes agency fees for outside services, advertising, publicity costs and any similar costs related to the maintenance and further development of the Airline Corporate Brand, as are overhead costs related directly to ticketing, sales and promotion as set out in IATA definitions and instructions (2002, pp. 40).

Figure 6.1.18 again presents Olympic Airways against AEA, British Airways and Air Portugal (TAP) ticketing, sales and promotion costs as a percentage of total operating expenses for the same reasons highlighted above in 6.1.11.

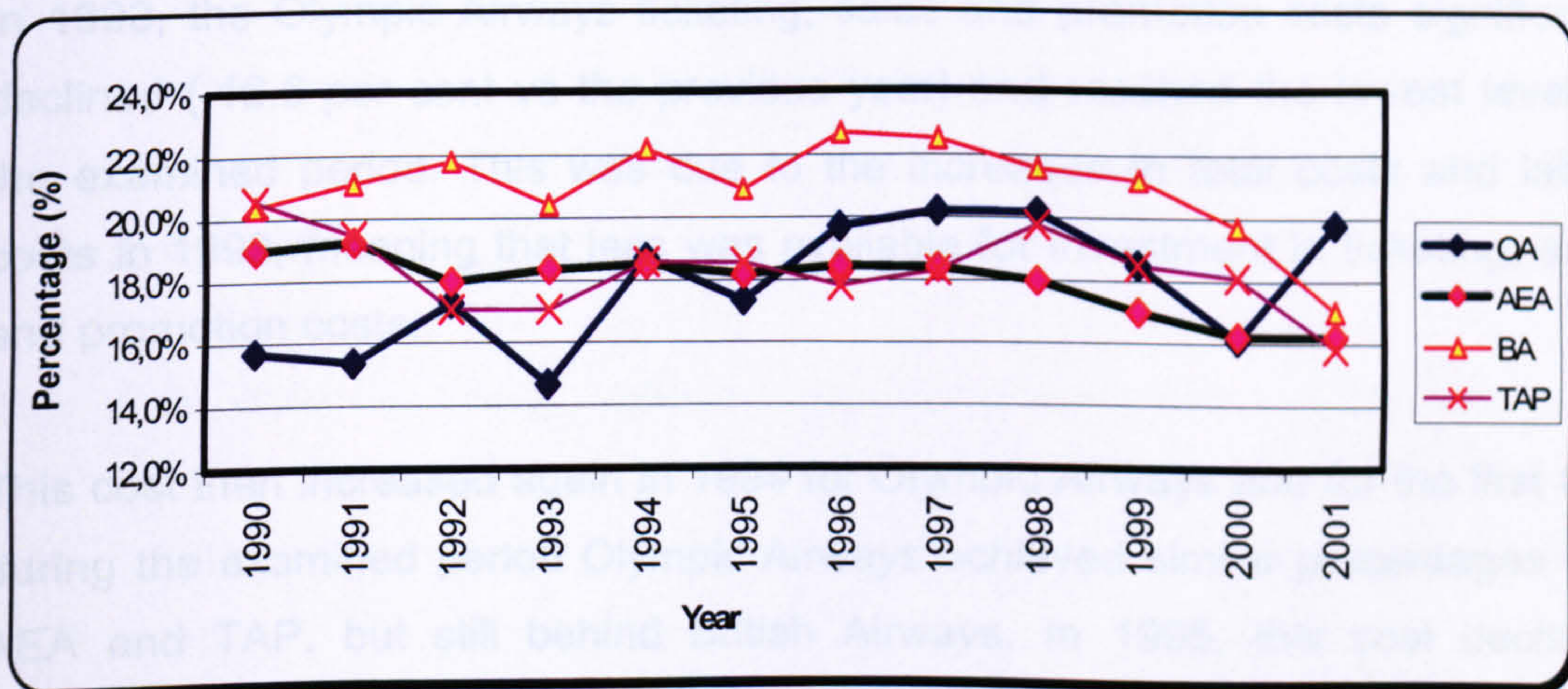


Figure 6.1.18 Ticketing, Sales and Promotions vs total operating costs (%) (Association of European Airlines, RB8 Annual data)

As can be seen from figure 6.1.18, Olympic Airways proportion of ticket, sales and promotion cost to the total operating expenses generally followed a similar trend to those of British Airways (BA), but with BA's proportions being much higher, except for 2001, where Olympic Airways had considerably higher costs than all the others. This shows costs increasing from 1990 to 1996, except for drops in 1993 and 1995, and then decreasing costs since 1996. However, it should be mentioned that British Airways invested approximately 2 per cent more

than AEA average, approximately 3 per cent more than TAP and approximately 6 per cent more than Olympic Airways.

Against the other competitors, figure 6.1.18 shows that Olympic Airways ticketing, sales and promotion costs as a percentage to the total operating expenses are much lower than the AEA average, British Airways and TAP, for the years 1990 and 1991. For Olympic Airways this is explained by the state backing of the carrier and due to the absence of intense competition. On the other hand, in 1992, Olympic Airways and British Airways increased their ticketing, sales and promotion costs, while AEA and TAP show a decrease in this cost against their total operating expenses.

In 1993, the Olympic Airways ticketing, sales and promotion costs significantly declined (-16.6 per cent vs the previous year) and reached the lowest level for the examined period. This was due to the increases in total costs and labour costs in 1993, meaning that less was available for investment in ticketing, sales and promotion costs.

This cost then increased again in 1994 for Olympic Airways and for the first time during the examined period Olympic Airways achieved similar percentages with AEA and TAP, but still behind British Airways. In 1995, this cost declined, dropping Olympic Airways below AEA and TAP again due to the implementation of the first restructuring plan. However, during 1996, these costs began to increase again, reaching its highest level in 1998, which can partly be explained by the increased competition. TAP also increased its investment in ticketing, sales and promotion costs as a percentage to the total operating expenses, in 1998. However, at the same time British Airways costs were decreasing, which meant that there was a much smaller gap since 1998 in terms of investment.

The mid 1990's increase of the spending by the carriers to improve its ticketing, sales and promotion happened for the same reasons that the carriers spent more

for passenger service improvement, which are the increased competition and the prosperity that the airline industry has faced.

In 1998-2001 period, the participation of this cost had declined for all. For Olympic Airways this was the result of the implementation of the second restructuring plan in 1998. However, Olympic Airways ticketing, sales and promotion costs had increased rapidly in 2001 due to the carrier's FFP named ICARUS promotional campaign, some other advertising campaigns and an initial spending to improve the internet sales use.

However, Olympic Airways still only make limited use of the internet (in 2001) while the other airlines use the internet extensively for sales promotion, reservations and ticketing reasons. Therefore, a big proportion of this cost, more for the others and less for Olympic Airways, is directed to the sales promotion through internet.

It is clear from the study findings that Olympic Airways did not achieve a differentiation competitive advantage offering something different in ticketing, sales and promotion investing less than the other airlines, in the examined 1990-2001 period.

6.1.13 Distribution of Passengers Travelled

This final section examines the geographical distribution of the passengers travelled in order to explore the possibility that Olympic Airways has employed a focus strategy.

Olympic Airways had not focused on business traffic because it only represents approximately 5-7 per cent of the total traffic (in RPKs) for all the examined period, while the other European airlines achieve on average more than 12 per cent (AEA average) (Olympic Airways, Network Analysis Sub-division data).

Olympic Airways actually tends to attract lower yield passengers, mainly tourists, which contributed to the carrier's lower yield. This is linked to the fact that Olympic Airways passenger traffic is highly seasonal as the summer traffic (from April to October) represents approximately 70 per cent of the total traffic (Olympic Airways, Network Analysis Sub-division data). This would not therefore be a viable focus strategy for Olympic Airways because this low yield summer traffic travel mainly for tourism reasons or are expatriates (VFR traffic), and therefore tend to pay lower fares.

The only other area in which Olympic Airways could employ a focus strategy is based on geographical distribution, and this will now be examined.

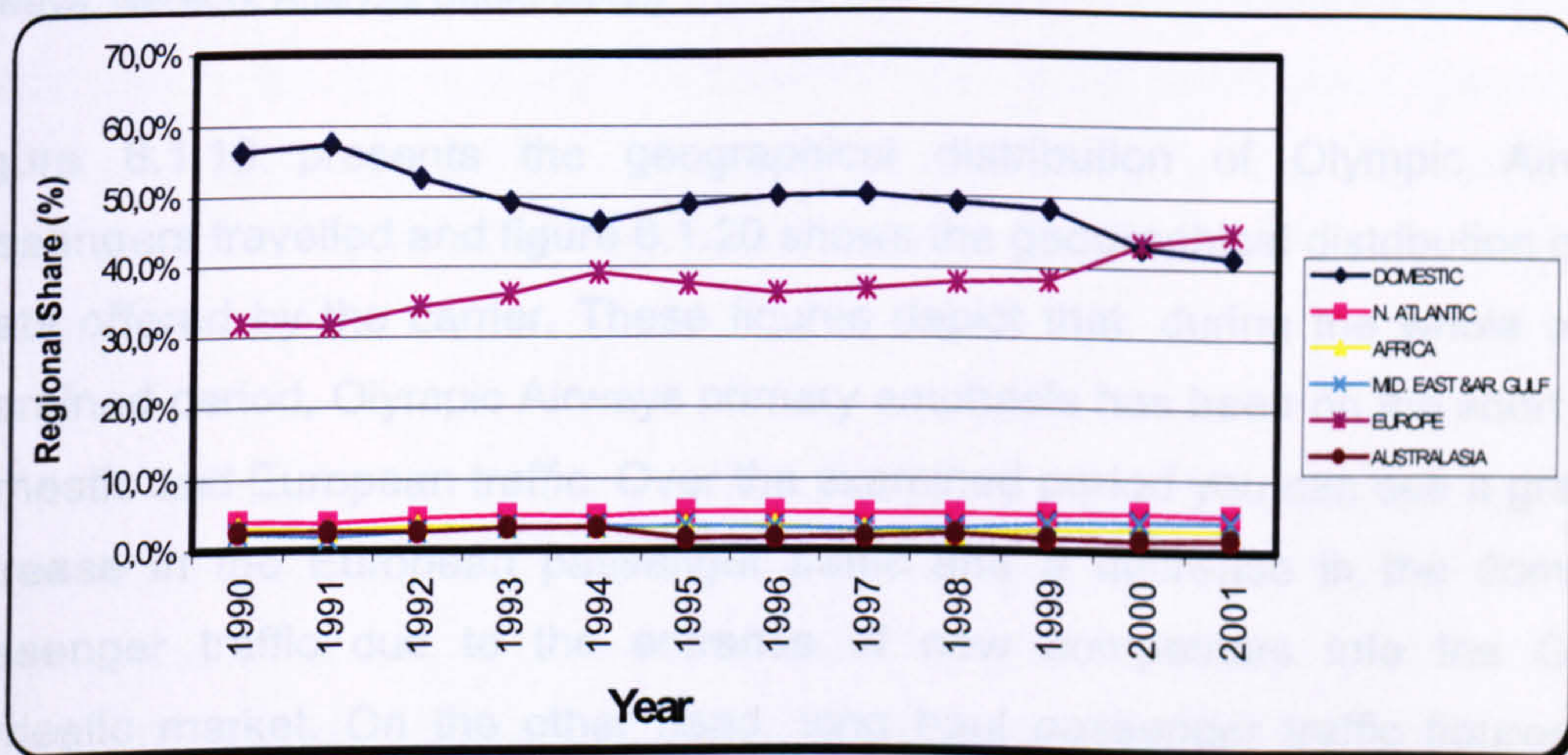


Figure 6.1.19 Olympic Airways passengers traffic geographical distribution (%) (Olympic Airways, Network Analysis Sub-division)

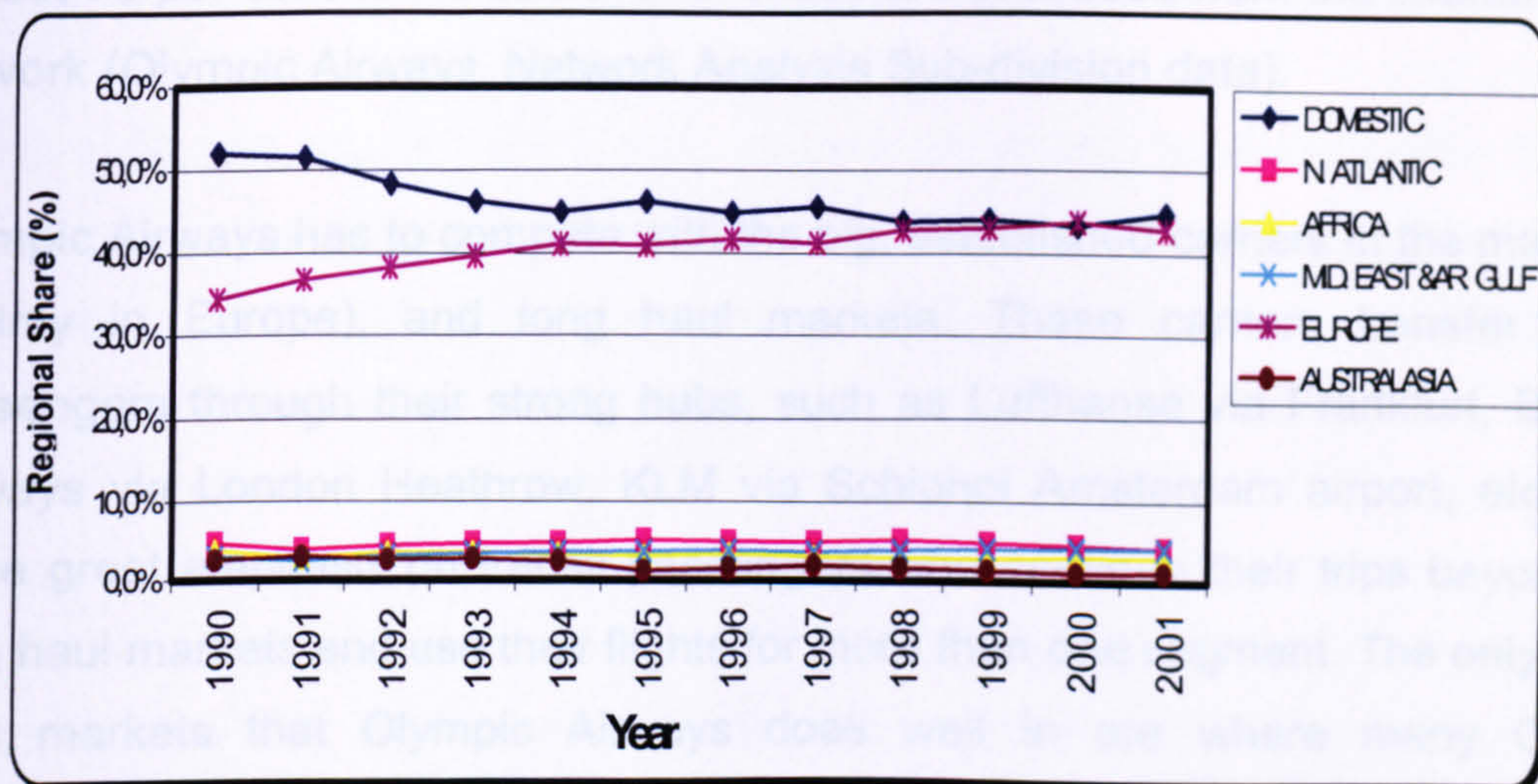


Figure 6.1.20 Olympic Airways offered seats geographical distribution (%) (Olympic Airways, Network Analysis Sub-division)

Figure 6.1.19 presents the geographical distribution of Olympic Airways passengers travelled and figure 6.1.20 shows the geographical distribution of the seats offered by the carrier. These figures depict that, during the whole of the examined period, Olympic Airways primary emphasis has been on the short haul domestic and European traffic. Over the examined period you can see a gradual increase in the European passenger traffic and a decrease in the domestic passenger traffic due to the entrance of new competitors into the Greek domestic market. On the other hand, long haul passenger traffic figures are much lower and both the long haul traffic and capacity has remained stable for the whole of the examined period. The extension of the carrier to long haul markets is limited by the lack of larger seat, long distance aeroplanes and by Olympic Airways not participating in any of the global alliances, which is important for the carrier to extend its service to long haul markets. Olympic Airways has, therefore, tended to place more emphasis on markets where the competition is more intense (Europe and domestic) and less emphasis on markets where there is not as much direct competition. This is important given that long haul routes have a greater impact on Olympic Airways revenues.

Almost 70 per cent of the carrier's revenues are produced from the international network (Olympic Airways, Network Analysis Sub-division data).

Olympic Airways has to compete with the big, established carriers in the medium (mainly in Europe), and long haul markets. These carriers transfer their passengers through their strong hubs, such as Lufthansa via Frankfurt, British Airways via London Heathrow, KLM via Schiphol Amsterdam airport, etc and place great emphasis on transit passengers who continue their trips beyond to long haul markets and use their flights for more than one segment. The only long haul markets that Olympic Airways does well in are where many Greek expatriates live (USA and Australia), but it does this by offering lower fares. The lower yield of Olympic Airways long haul passengers by comparison with the yields made by its competitors and the low yield short haul passengers combined with the carrier's high cost structure and competing against the big established carriers, most of whom are European, has contributed significantly to the carrier's financial losses.

It is clear that the choices Olympic Airways has made in terms of geographical focus were not based on a detailed study of the contribution of each geographical area to the carrier financial and market position and is, in fact, adding to Olympic Airways problems rather than providing them with a competitive advantage.

6.1.14 Conclusions

From the analysis of the above elements, which represent the strategies adopted by Olympic Airways in 1990-2001, combined with the analysis of the carrier's performance for the same period (see chapter 3), the following conclusions are extracted:

- the contribution of the two restructuring plans was very significant in 1994

- and 1998 and resulted in Olympic Airways controlling its costs better. This is the reason that Olympic Airways achieved profitability for the first time in its history in 1995 and 1996, and marginal profitability in 1998. In addition, the carrier's market share remained relatively stable in the period 1994 –1996. Therefore, the carrier's better financial results for the mid 1990's are partly explained by the strict control of costs and less by the carrier's aggressive differentiation strategies. However, Olympic Airways has not fully exploited the state aid for the two restructuring plans, which would have helped it to control costs further, nor have it fully exploited the cheaper input cost prices that Greece, as a home country, provides. In fact, using Athens International Airport (AIA) since 2001 has added to the already high costs of the carrier. On this basis it can be concluded that Olympic Airways has not managed to adopt a cost leadership strategy during the examined period 1990-2001. In addition, the carrier did not spend enough on improving its product offering. However, this would not have been consistent with the carrier's cost minimisation strategy. If Olympic Airways could have fully exploited the opportunities available to it would have achieved significantly lower costs and been better able to compete with its main domestic and international rivals.

- Olympic Airways investments in product/service improvement followed a declining trend, during the examined period. These investments were also much lower than the other European carriers, both in terms of passenger services and sales and promotion, except for 1996 - 2001. The absence of large investments by Olympic Airways in improving passenger service and in ticketing, sales and promotion has resulted in Olympic Airways achieving lower load factors than AEA competitors (-3,92 points in 1990 and -5,82 points in 2001), and lower yields than the AEA average (AEA, RB8 1990-2001 data). The move to the new Athens International Airport (AIA) provides a significant opportunity for the carrier to improve its offered service to travellers, but this

has also had a significant impact on costs. It is clear from these facts that Olympic Airways has not managed to offer an attractive, differentiated product during the 1990-2001 period.

- Although the long haul markets produced the majority of Olympic Airways revenues, the carrier tended to place the most emphasis on the domestic and European markets. In the 1990-1992 period, Olympic Airways had a monopoly in the domestic market but later, when the competition increased and the carrier started to lose market share, it still continued to place more emphasis on the domestic market by offering higher than necessary capacity. Olympic Airways have also tended to focus on the low yield passengers, mainly tourist and ethnic traffic. The carrier should significantly improve its service offering in order to focus on higher yield passengers, however, the carrier's management need to recognise that this is where the competition is more intense.

Conclusively, Olympic Airways has not managed to adopt a profitable focus strategy during the examined period.

Olympic Airways has an opportunity to achieve a clear cost leadership or differentiation strategy through the restructuring plans of 1994 and 1998. However, the evidence suggests that neither route was followed, and instead the organisation was, according to Porter's theory, 'stuck in the middle', which gave little competitive advantage over its rivals. The carrier also showed poor performance during this period, particularly when measured against the competition, in terms of product offering, and relatively higher costs. Therefore, as far as the first research question is concerned, the lack of evidence of a clear strategy by Olympic Airways in the period 1990-2001 may partially explain the carrier's low performance.

The survival of the carrier is likely to be extremely difficult without a clear strategy to follow. However, Olympic Airways can further minimise significantly labour costs by following a better and a more efficient cost management, controlling its costs to more competitive levels and to find ways to offer a differentiated product, at least in terms of some of the less costly differentiation advantages, that will compete at similar levels with the competitors. It should also focus on those geographical areas which are more financially convenient for the carrier and having improved its product, should focus more on high yield business traffic. However, all these strategies should be done with extra care otherwise there is a risk the carrier might remain 'stuck in the middle', and continue to present poor performance.

6.2 The Implementation of Market Orientation Concept in Olympic Airways

The implementation by Olympic Airways, in the period 1990-2001, of the market orientation concept, as described by Narver and Slater (1990) is examined in this section, through the assessment of the carrier's customer orientation, competitor orientation and inter-functional co-ordination.

1. Customer orientation is examined through the assessment of the strategies adopted by the carrier regarding customer complaints, punctuality, the frequent flyers programme (FFP), the convenience of schedules and the commercial agreements.
2. Competitor orientation is examined through monitoring how the carrier collected all the information about its competitors and how it reacted to the competition.
3. Inter-functional co-ordination is examined through monitoring the organisational structure of Olympic Airways: how the various departments of the carrier co-operate and how well the structure supports the strategy adopted by the carrier.

6.2.1 Customer Orientation

6.2.1.1 Customers Complaints

The way that a carrier deals with customer complaints and how it responds to the complainant's requirements is highly important in the customer orientation. In today's extremely competitive environment, airlines should place great emphasis on the passengers complaints as they provide significant information on how travellers value the carriers services. An adopted policy towards customer complaints also offers to carriers an opportunity to improve customer service, which can then lead to improved customer loyalty.

As far as Olympic Airways is concerned, statistics on complaints/claims are not kept on a database or monitored on an ongoing basis and the only data available is for the years 1996, 2000 and 2001. However, the first interviewee confirmed that this data *"is representative and almost similar occurred for the rest of the examined years"* (1st interview). Therefore, conclusions about how the carrier deals with the customer's complaints are only based on the data for the years 1996, 2000 and 2001 and for the remaining years there are the perceptions of the first interviewee and other staff, who have been in the relative Department for many years.

Complaints/claims are categorised based on importance of customer, amount of claim, urgency, legal implications, and whether or not they were received by top management. However, whilst complaints are similar, the classification of these complaints has changed between 1996 and 2000. Therefore, the analysis of the complaints is presented year by year (for the years where data is available) and some comparisons extracted.

In 1996, the Olympic Airways Customer Services Sub-division received 11,303 written complaints. As figure 6.2.1 presents, the majority of them, 5,448 letters (or 48 per cent of written complaints) involved customer complaints (2,942) and passenger claims (2,506), 4,702 (or 42 per cent) letters involved baggage claims; while 1,153 compliments have been received by the carrier from customers about its service offering. In addition, the carrier also receives telephone calls to make complaints and compliments. The balance is 80 per cent via letters and 20 per cent by telephone calls (1st interview). As far as the telephone calls are concerned, *"the majority of the customers were complaining about the service offered by the carrier"* (1st interview).

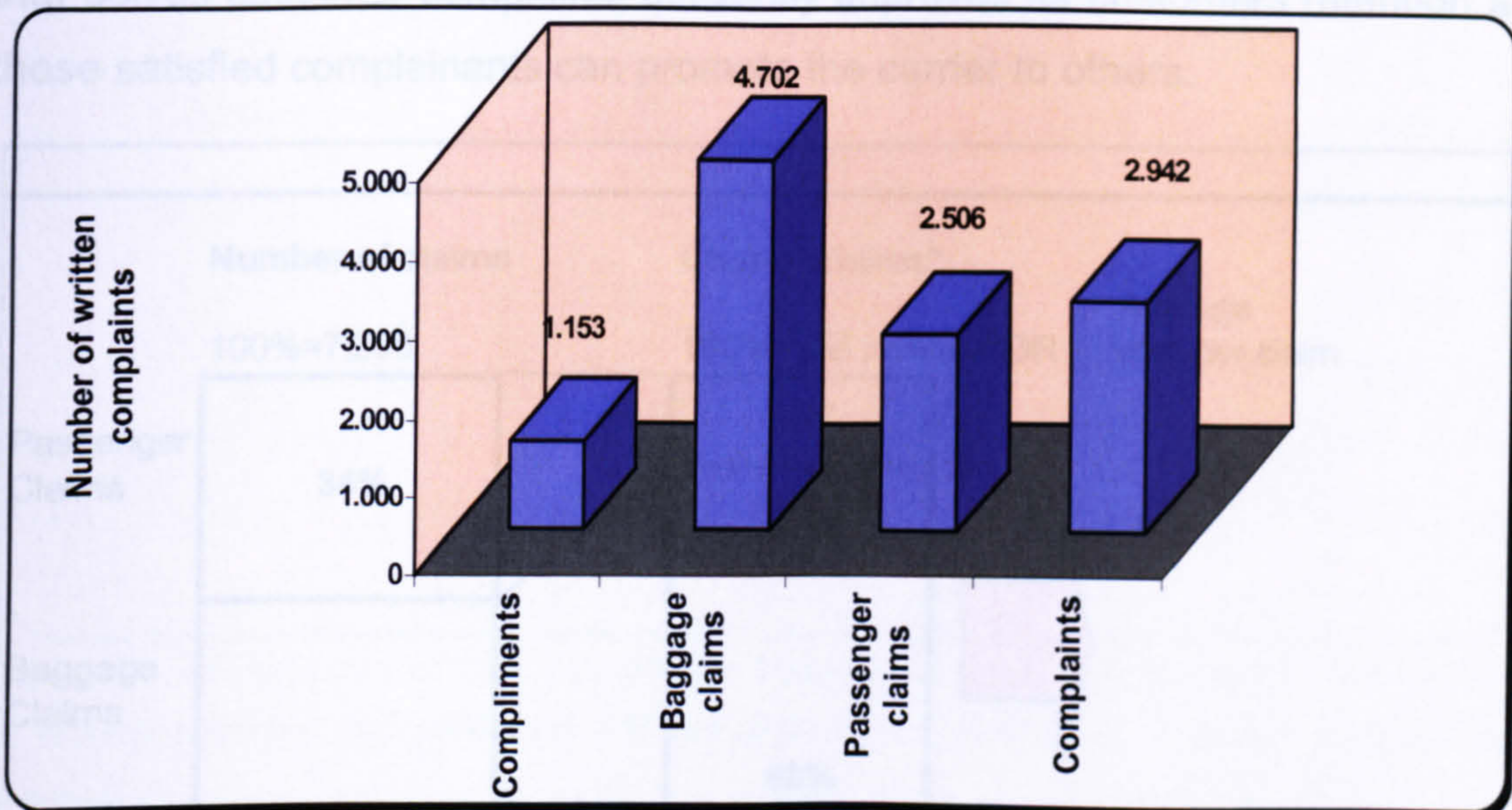


Figure 6.2.1 Main causes of complaints and claims received by Olympic Airways Customer Services Sub-division (1996, number of written complaints) (Olympic Airways, Customer Services Sub-division)

Figure 6.2.2 presents the analysis of Olympic Airways baggage and passenger claims. Baggage claims are both significant in number and cost to the carrier compared to the other passenger claims. Although baggage claims represent 66 per cent of written complaints that the Olympic Airways Customer Sub-division received in 1996, these claims represent 88 per cent of the costs that the carrier paid out. The average cost was 27,000 GDR per baggage claim and 8,000 GDR per passenger claim (Customer Services Sub-division, Annual Reports). Consequently, Olympic Airways should place more emphasis on the baggage handling system and should aim to efficiently solve any complaints that do arise in order to reduce costs. However, this does not mean that the carrier should ignore the other customer claims, just because they cost the carrier less, as these can have a significant affect on the image of the firm. Olympic Airways should focus on this area in order to reap long term benefits in terms of customer loyalty. This is backed up by Weiser (1995, pp. 13) who identified that a carrier

that solves customer complaints efficiently improves its customers retention and these satisfied complainants can promote the carrier to others.

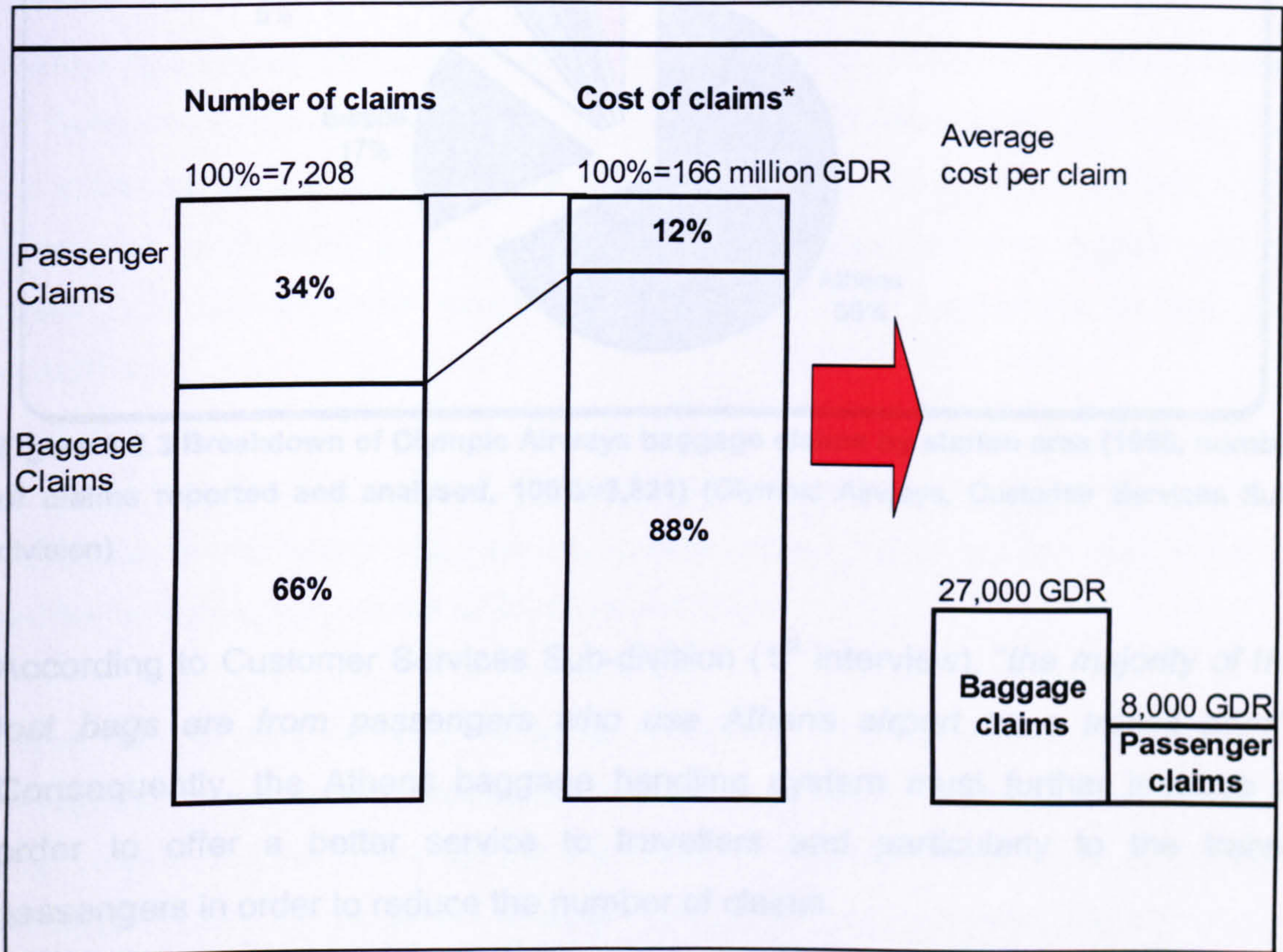


Figure 6.2.2 Analysis of Olympic Airways baggage and passenger claims in 1996 (Data from Olympic Airways, Customer Services Sub-division; compiled by author)

*Includes both monetary compensation and issuance of MCO's; actual and estimated data

Figure 6.2.3 presents the geographical breakdown of Olympic Airways baggage claims. Even though Athens is the carrier's main hub and most of its passengers travel from or via this airport, it still appears to account for a disproportionate share of baggage claims.

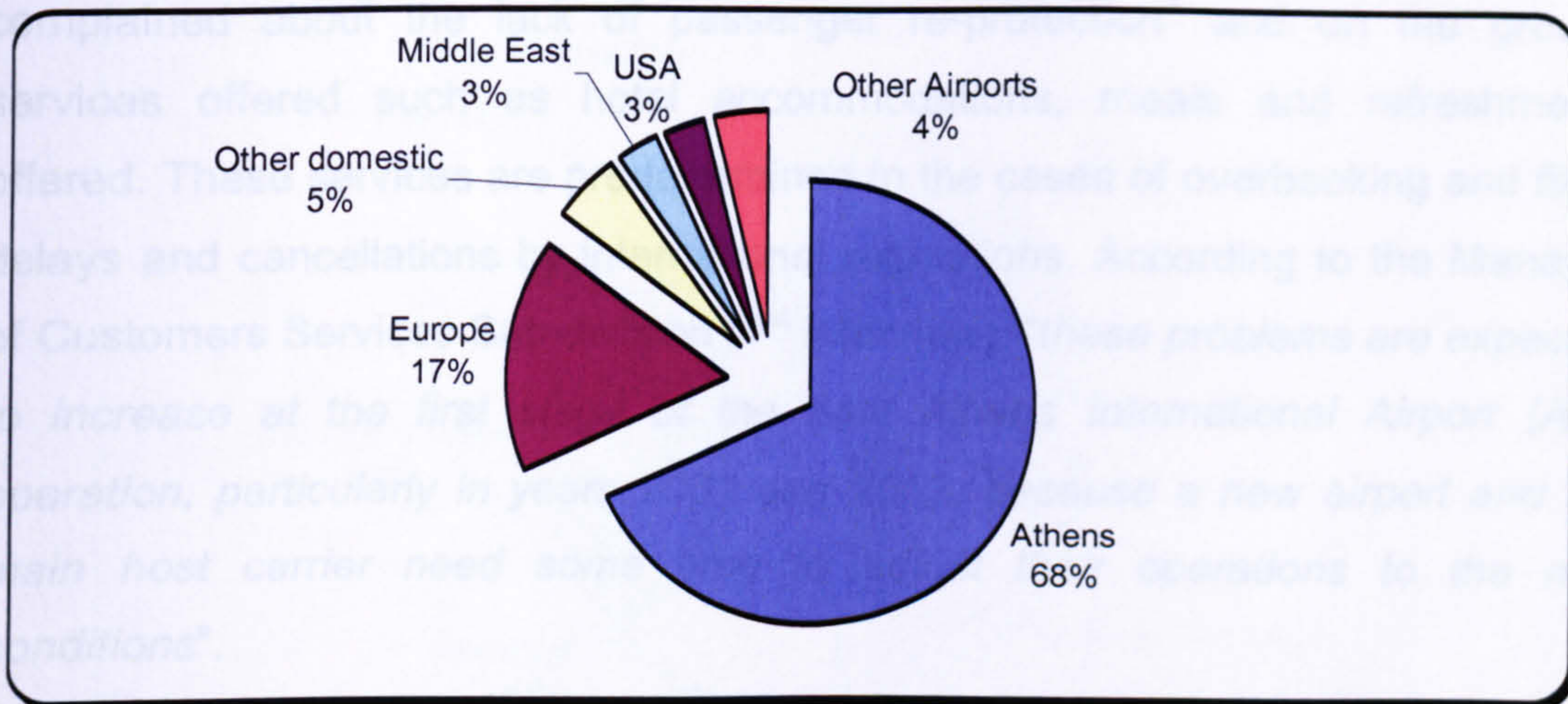


Figure 6.2.3 Breakdown of Olympic Airways baggage claims by station area (1996, number of claims reported and analysed, 100%=3,821) (Olympic Airways, Customer Services Sub-division)

According to Customer Services Sub-division (1st interview), "the majority of the lost bags are from passengers who use Athens airport as a transit point". Consequently, the Athens baggage handling system must further improve in order to offer a better service to travellers and particularly to the transit passengers in order to reduce the number of claims.

Data from aviation international organisations (IATA, ICAO) - which studies airlines from all the world regions - concerning the reasons for complaints, present that on-time performance and baggage mishandling are top on the list of passenger complainants (Aviation Analyst, November/December 2002, pp. 13).

Figure 6.2.4 presents the analysis of the causes of passengers' complaints and claims that the Olympic Airways Customer Services Sub-division collected in 1996. The majority of them are concerned with the carrier's flights punctuality, and flight cancellations. These complaints were about the information provided by the carrier to the passengers in cases of flight delays and cancellations and on how customers were treated in these cases. Moreover, customers also

complained about the lack of passenger re-protection¹ and on the ground services offered such as hotel accommodations, meals and refreshments offered. These services are predetermined in the cases of overbooking and flight delays and cancellations by international regulations. According to the Manager of Customers Services Sub-division (1st interview), *"these problems are expected to increase at the first stage of the new Athens International Airport (AIA) operation, particularly in years 2001 and 2002, because a new airport and the main host carrier need some time to adjust their operations to the new conditions"*.

Another important issue was the ground services provided by Olympic Airways to its passengers, which includes complaints about ticketing, terminal facilities, particularly check-in, arrival and transit services.

Other complaints received by Olympic Airways in 1996 were about reservations, in-flight services, aircraft standards, catering and smoking policy. The last issue has been resolved by the decision in 2001 to prohibit smoking on all Olympic Airways flights. As far as the in-flight services were concerned, the complaints were related to the cabin crew behaviour and the on-board services offered.

According to the Manager of Customers Services Sub-division (1st interview), complaints about the reservation services were *"related mainly to the fact that passengers waited a long time for reservation agents to answer the phones especially in peak and holiday seasons"*. He added, *"although temporary personnel are hired to cover peak periods, calls not answered may go up to 25 per cent during high seasons. Also, six out twelve months customers must wait over one minute on average before their call is answered"*.

¹ Re-protection: when a flight is delayed for a long time, is oversold (overbooking), or is cancelled the carrier should find an alternative way (other carrier flights) of getting the passengers to their final destination.

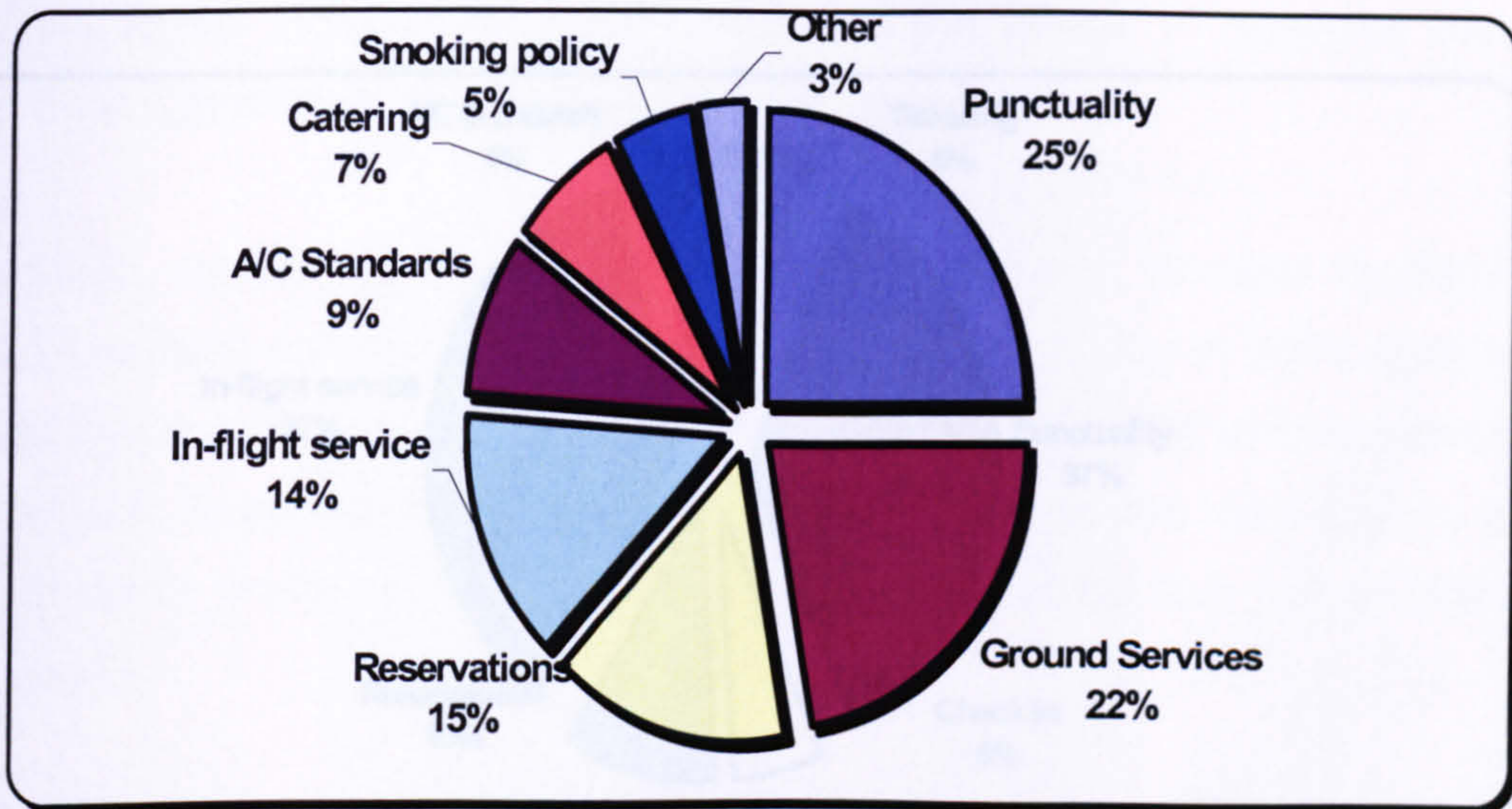


Figure 6.2.4 Analysis of the causes of passengers complaints and claims (1996, number of written complaints, 100%=5,448) (Olympic Airways, Customer Services Sub-division)

Figure 6.2.5 presents the compensation that Olympic Airways paid to complainants in 1996. *“Complaints concerning the punctuality of Olympic Airways flights and in-flight service offered to passengers cost the carrier the most. On the other hand, complaints concerning the reservations service, check-in services, ticketing and aircraft standards were less costly”* (1st interview). Consequently, the carrier should focus primarily on improving the punctuality and in-flight services, in order to decrease compensations paid and to increase customer retention and the repurchase rate.

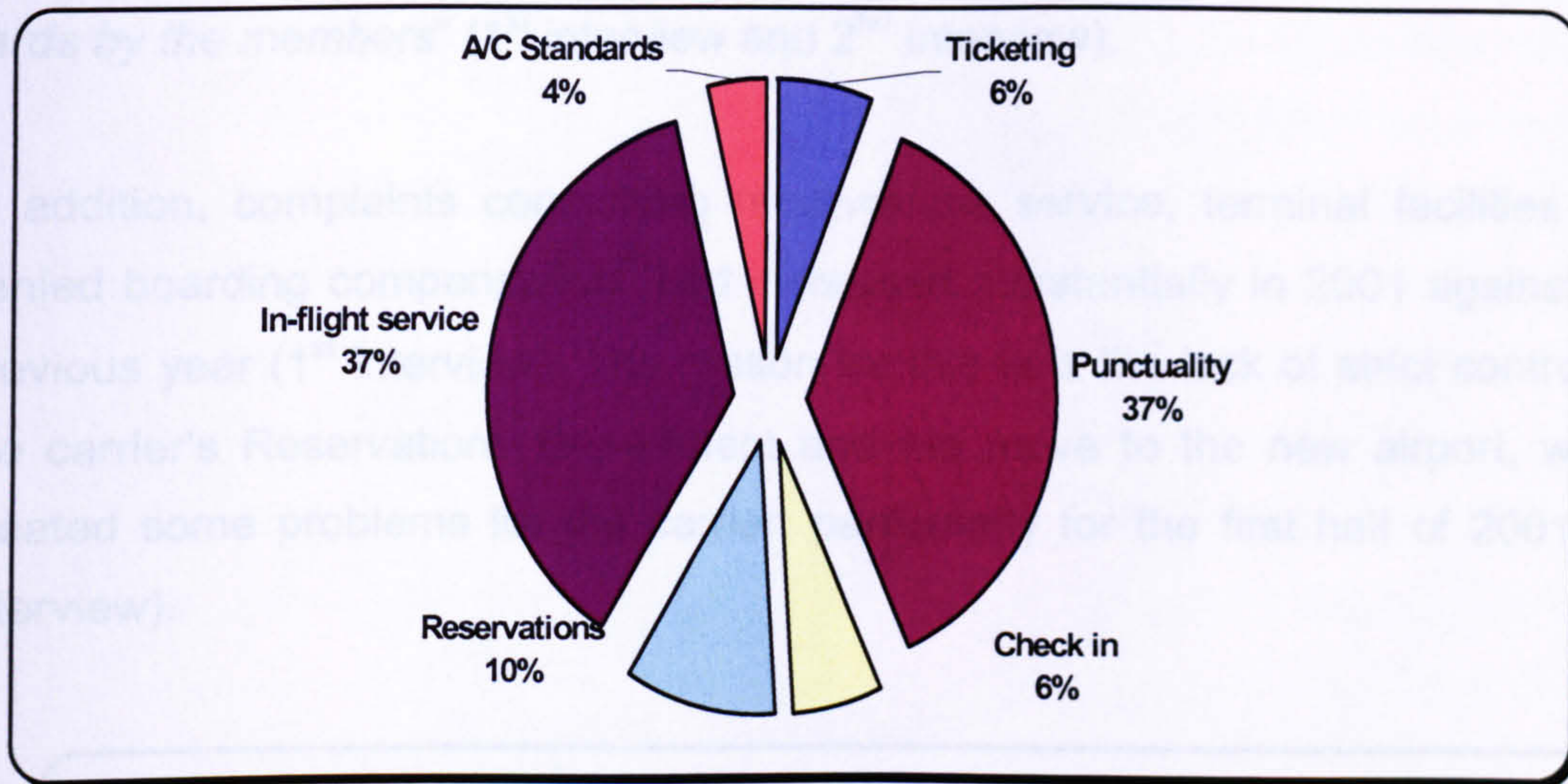


Figure 6.2.5 Compensation paid by Customer Services Sub-division by category of passenger claims (1996, 100%=7,4 million GDR) (Olympic Airways, Customer Services Sub-division)

Figures 6.2.6 and 6.2.7 present the analysis of the causes of passenger complaints and claims, in years 2000 and 2001. The majority of complaints and claims concerned operational issues. As in 1996, punctuality of the flights and cancellations were the main causes of customer complaints and claims. However, complaints concerning operational and check-in issues had substantially declined in 2001 against the previous year and according to first interviewee *"it is estimated that they are declined more than 30 per cent compared to 1996"* (1st interview), mainly due to the operation of the new Athens International Airport (AIA). Also, an improvement in in-flight service explains the reduction in complaints about this issue in 2001. In 2001, the carrier had started to monitor complaints about the service provided to the members of its Frequent Flyers Programme (FFP-ICARUS) and it was identified as the second most important complaint issue. Concerning the complaints about the carrier's FFP – named ICARUS - *"More complaints were related to the lack of the appropriate number of staff in order to respond quickly and efficiently to the frequent flyers requirements. Thus, there are many complaints concerning the contact to the*

Frequent Flyers Programme (FFP) office and the delays in receiving the FFP cards by the members” (1st interview and 2nd interview).

In addition, complaints concerning reservations service, terminal facilities and denied boarding compensation¹ had increased substantially in 2001 against the previous year (1st interview). The reason for this was the lack of strict control on the carrier’s Reservations Department and the move to the new airport, which created some problems for the carrier, particularly for the first half of 2001 (1st interview).

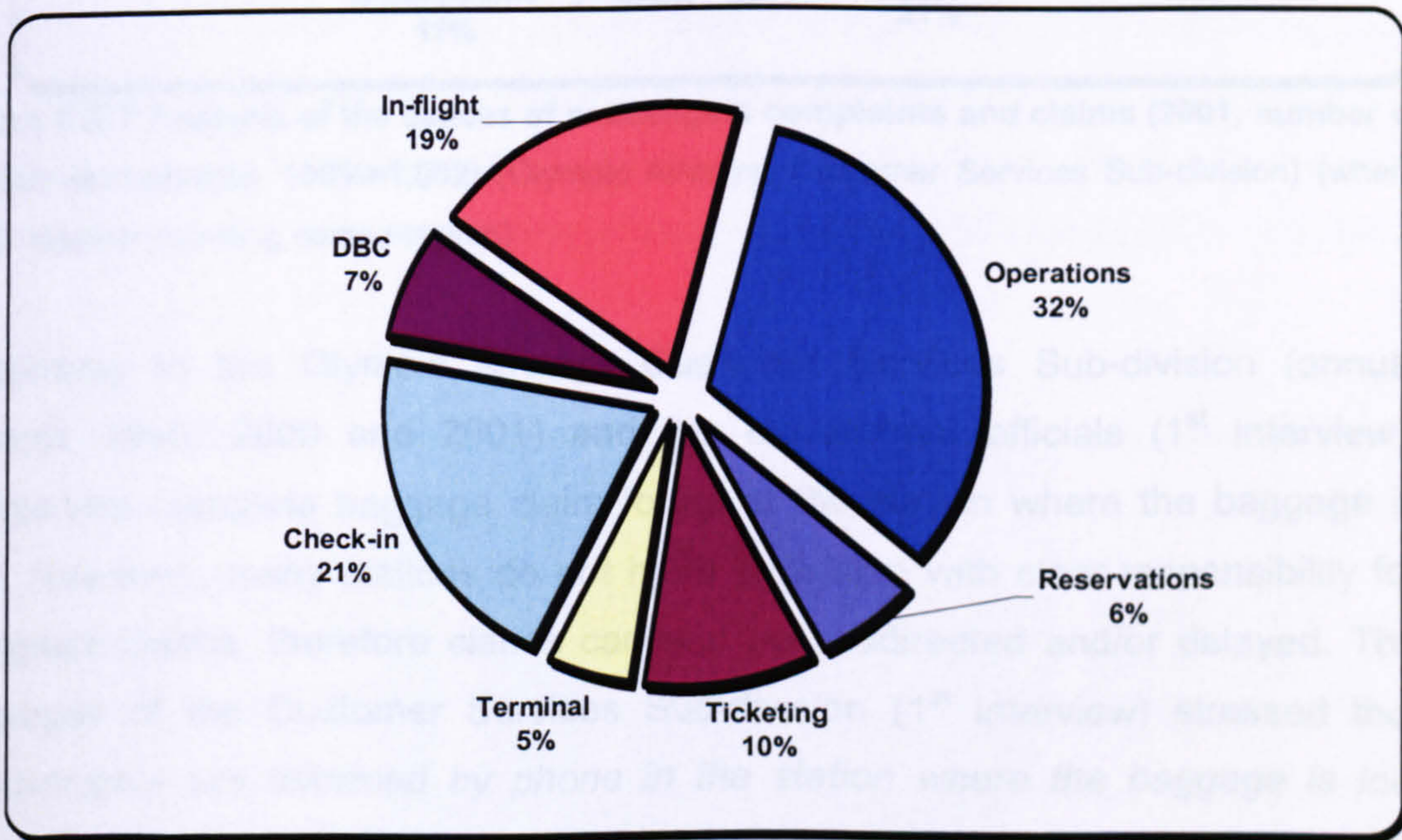


Figure 6.2.6 Analysis of the causes of passengers complaints and claims (2000, number of written complaints, 100%=1,002) (Olympic Airways, Customer Services Sub-division) (where DBC: denied boarding compensation)

¹ Denied boarding compensation: a compensation that a carrier pays to a passenger who does not travel on a specific flight because this flight is oversold (overbooked) by the carrier. Rules for denied boarding compensation are set by IATA 295/1991 regulation. The amount paid for Olympic Airways passengers is 75 EURO for domestic passengers, 150 EURO for European and other medium haul passengers and 150 EURO for transatlantic flight passengers (Olympic Airways, Customer Services Sub-division).

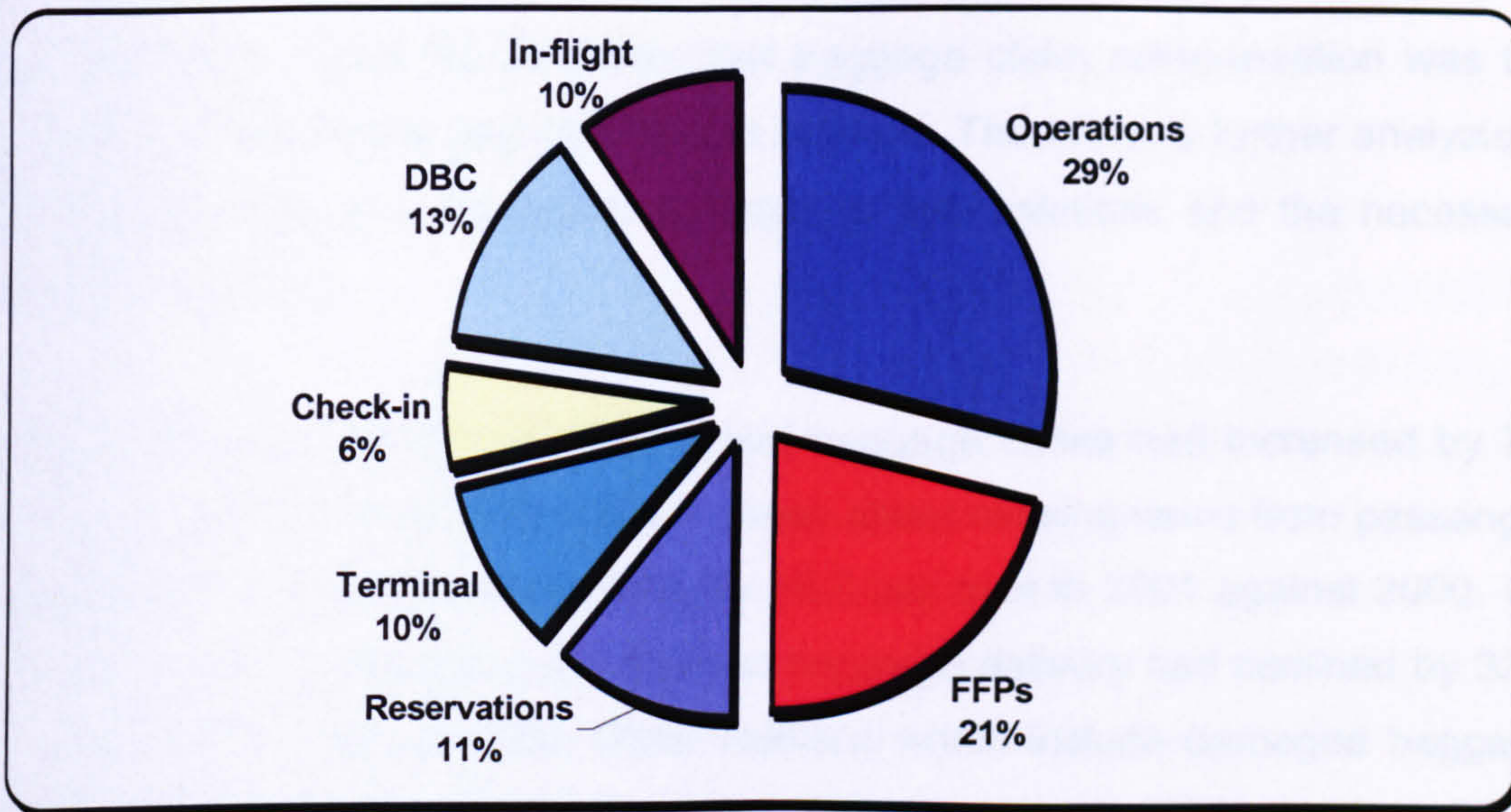


Figure 6.2.7 Analysis of the causes of passengers complaints and claims (2001, number of written complaints, 100%=1,002) (Olympic Airways, Customer Services Sub-division) (where DBC: denied boarding compensation)

According to the Olympic Airways Customer Services Sub-division (annual reports 1996, 2000 and 2001) and the department officials (1st interview), customers complete baggage claim forms at the station where the baggage is lost. However, many stations do not have a division with clear responsibility for baggage claims, therefore claims can end up misdirected and/or delayed. The manager of the Customer Services Sub-division (1st interview) stressed that *“passengers are informed by phone in the station where the baggage is lost (abroad or Athens Lost and Found Department) regarding the legal procedures that will be followed”*. No letter acknowledging receipt of a customer’s claim is sent in the interim. Although legal procedures stipulate a claim should be settled 21 days following the date of the baggage being lost, most claims are settled 2 months after the date of the passenger’s travel. Consequently, there is a significant delay in answering and addressing baggage claims. This delay results in many customers contacting Olympic Airways directly regarding the status of their claim. This is likely to increase the level of customer dissatisfaction and also increases the Customer Services Sub-division workload (1st interview).

The 1996 data (figure 6.2.2) shows that baggage claim compensation was the highest of all the claims paid by Olympic Airways. Therefore, a further analysis of the baggage claims is necessary in order to find solutions and the necessary actions to be taken.

As figure 6.2.8 shows the number of lost baggage cases had increased by 7.6 per cent in 2001 versus 2000 and the cases about missing items from passenger baggage had increased substantially by 56.3 per cent in 2001 against 2000. On the other hand, claims about the delayed baggage delivery had declined by 32.3 per cent in 2001 versus 2000. Other reasons which include damaged baggage and damaged items had increased by 16.1 per cent in 2001 against 2000. However, in 1996 different classifications of passenger complaints and baggage claims were used, so secure comparisons with the other years (2000 and 2001) could not be extracted.

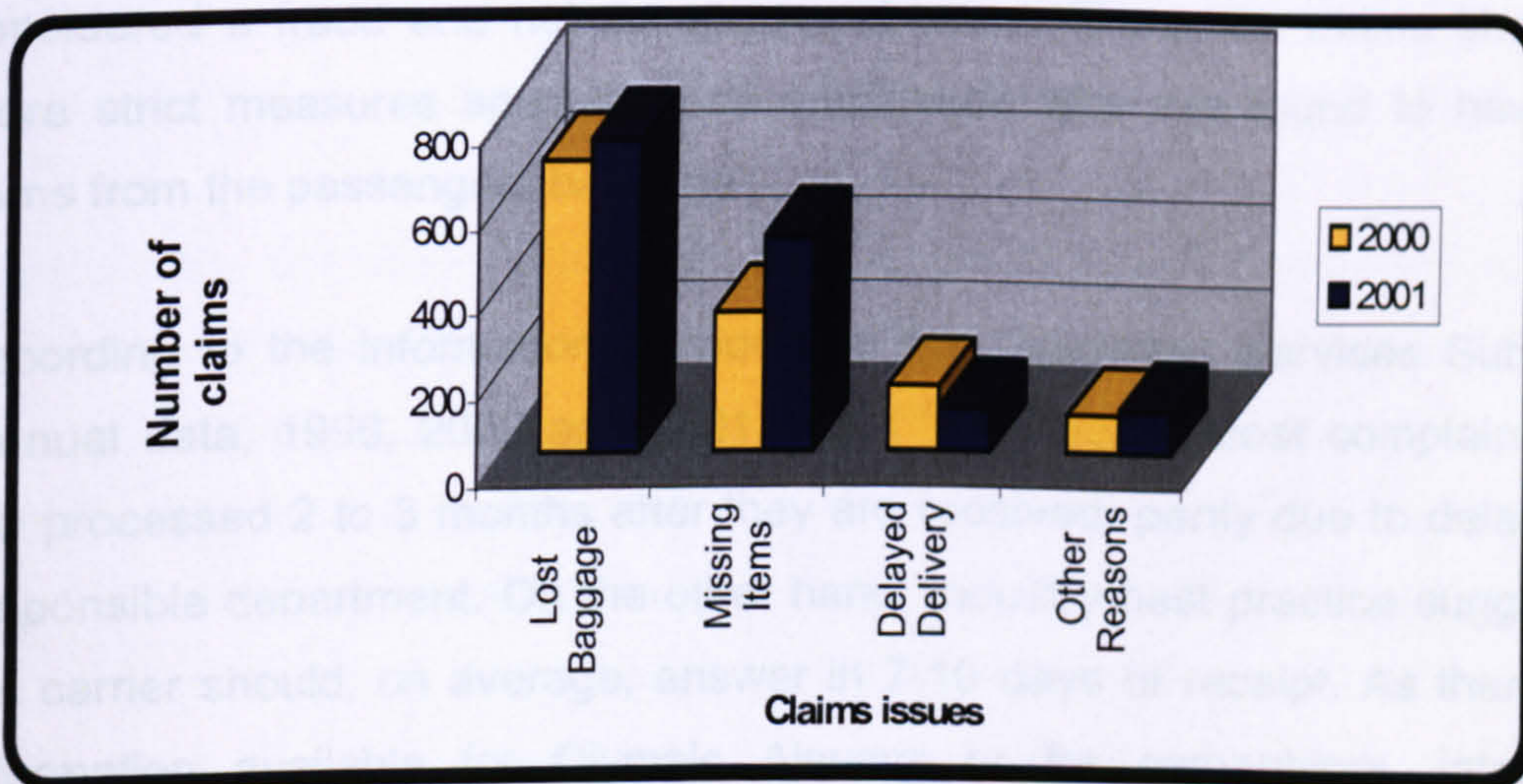


Figure 6.2.8 Analysis of the causes of baggage claims in 2000 and 2001 (Olympic Airways, Customer Services Sub-division)

What is also important is that the compensation paid to the passengers for baggage claims increased by 3.5 per cent in 2001 against 2000 (in current prices) (1st interview).

Consequently, it is necessary for the carrier to improve the keeping procedures of the Lost and Found Department, which are related to the immediate delivery of the lost baggage, missing items, and damage items and damaged baggage. They should also take more care during the loading and unloading of the passenger's baggage, in order to decrease the percentage of the temporary lost baggage and to save the carrier from the first needs compensation². The provision of a 'first need kit'³ by Olympic Airways to the passengers who lost their baggage can contribute to a decrease in compensation and an improvement in the firm's image.

The missing items from the passengers baggage is a serious problem for Olympic Airways, having a serious impact on the company's image, as it is considered a fraud and not an accidental event. Thus, the airline should take more strict measures against those employees who are found to have stolen items from the passengers baggage.

According to the information provided on the Customer Services Sub-division (annual data, 1996, 2000 and 2001 and 1st interview), most complaints/claims are processed 2 to 3 months after they are received, partly due to delays in the responsible department. On the other hand, industry best practice suggests that the carrier should, on average, answer in 7-10 days of receipt. As there is little information available for Olympic Airways or for competitors, inter carrier comparison is not possible. However, the fact that the guidelines suggest 7-10 days and Olympic Airways average is 2-3 months suggests that Olympic Airways did not place enough emphasis on the customers complaints. Disappointingly, as

² First needs compensation: It is the monetary compensation that carriers pay to travellers who loose their baggage on their trips by the carriers' fault. Olympic Airways compensate these passengers by 50 EURO approximately per day.

³ 'First need kit': Carriers give to travellers who loose their baggage a kit which contains clothes and other basic things.

the figures from 2001 show, Olympic Airways did not manage to exploit the operation of the new Athens International Airport (AIA), to improve customer complaint issues. Industry best practice suggests that Olympic Airways should institute a process to ensure complaints are more quickly resolved. Those passengers whose complaints are resolved quickly, become more loyal to the carrier than non complainants (Aviation Analyst, 2002, pp 14). Olympic Airways does not solve customer complaints efficiently and therefore loses loyal customers.

Another important issue is that even though Olympic Airways records compliments, outstanding service delivery is not systematically identified or rewarded. If employees were rewarded on compliments, the service offered should improve, and this could help reduce the number of complaints regarding service delivery. Furthermore, there is no systematic way to inform top management of customer complaints/compliments. The feedback received from customers is not monitored on an ongoing basis nor used as an input to the product development process. In addition, customer satisfaction with the complaints/claims handling procedure is not monitored.

Conclusively, the above information proves that Olympic Airways did not adopt a customer orientation in terms of dealing with customer complaints, as they did not place the necessary emphasis on this issue. Olympic Airways could significantly improve its customer orientation by improving the way which deals with the customer complaints and this could be achieved without having to spend too much more, which would not, therefore, significantly increase costs.

6.2.1.2 Punctuality

Punctuality is a major concern of all passengers, both those travelling for business and pleasure. Respect by an airline of its scheduled timetable is a requisite in order to attract more travellers, particularly high yield passengers.

Both punctuality and service standards issues seem to constitute the most important selection criteria, according to figure 2.10 (Chapter 2). Moreover, as mentioned above, punctuality issues are the most cited cause of customer complaints for Olympic Airways. Thus, an improvement in this area will contribute substantially to the improvement of customer service. Therefore, an airline that provides on-time departures can have an important advantage over its competitors.

Figure 6.2.9 presents that in the period 1990-1993 Olympic Airways achieved more on-time departures both in its domestic and international flights than the rest of the examined years. The worst year was 1999, showing under 40 per cent for all flights. Some improvements were seen in 2000, but more importantly no significant improvements happened when Olympic Airways moved to the new Athens International Airport (AIA). In fact all the figures show a drop between 2000 and 2001. This could have just been teething problems, however, since 2002, the carrier's punctuality remained almost the same, until 2004, when the figures show significant improvements, due to the new appointed management placing more emphasis on this issue (Informal discussions) This proves that the main reason for delays was not the airport ground facilities.

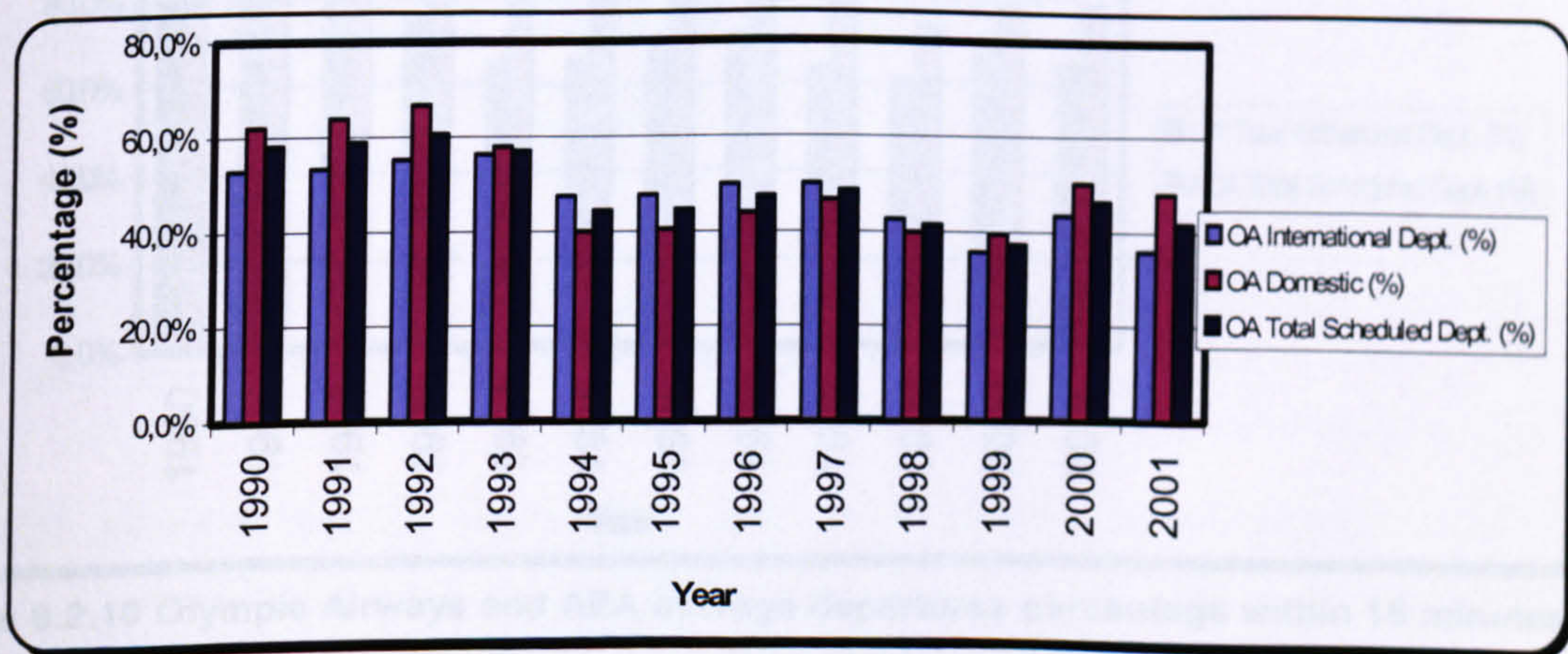


Figure 6.2.9 Olympic Airways percentage of on time departures (Association of European Airlines, RB11, Years 1990-2001)

A further analysis of the reasons for delays shows that the air traffic control (ATC) delays and the aircraft rotation due to aircraft late arrival are the main causes of delays for all carriers members of AEA (AEA, RB11, 2000). In 2000, 20 per cent of Olympic Airways flights were delayed beyond departure time due to the air traffic control (ATC) and 24.4 per cent delayed due to aircraft rotation, while the AEA average was 23.8 per cent and 17.1 per cent respectively (AEA, RB11, 2000). Therefore, aircraft rotation is the main cause of Olympic Airways aircraft delays.

Figure 6.2.10 presents a comparison between Olympic Airways and the AEA average, of the flights that depart within 15 minutes of their scheduled departure time. It is clear that Olympic Airways presents more delays than the AEA average for all the examined years. In 1990 and 1991 these figures were only marginally lower for Olympic Airways, however, in the rest of the years, AEA (average) presents much higher punctuality performance than Olympic Airways. In 2000, Olympic Airways improved its punctuality performance substantially but was still lower than the AEA average and in 2001, this figure dropped again, widening the gap between Olympic Airways and the AEA average.

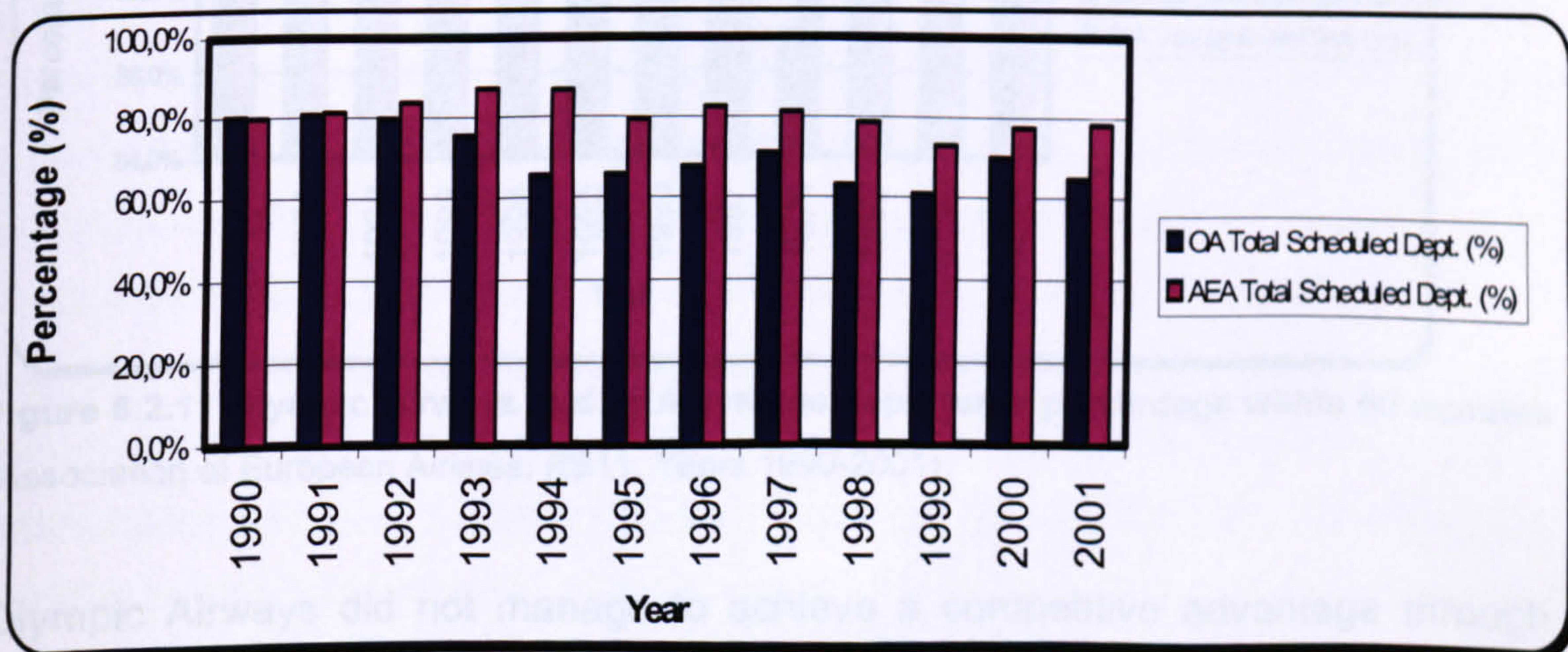


Figure 6.2.10 Olympic Airways and AEA average departures percentage within 15 minutes
(Association of European Airlines, RB11, Years 1990-2001)

A further analysis of the punctuality performance of Olympic Airways in relation to AEA average is presented in figure 6.2.11. This figure depicts the Olympic Airways and AEA (average) flights that depart within 60 minutes of their scheduled departure time. Olympic Airways had achieved higher punctuality performance than AEA average only in the years 1990 and 1991. All the other years Olympic Airways had achieved much lower performance than AEA. On the other hand, Olympic Airways presented a significant punctuality performance improvement in year 2000, but still lower than the AEA average. This is as a result of Olympic Airways management placing emphasis on improving the carrier's punctuality, through the creation of a specific team of experienced managers in 2000. However, this figure dropped again in 2001, when the management changed and this team was disbanded. The worst year was in 1998 for Olympic Airways and can be explained by the extensive employee strikes that took place.

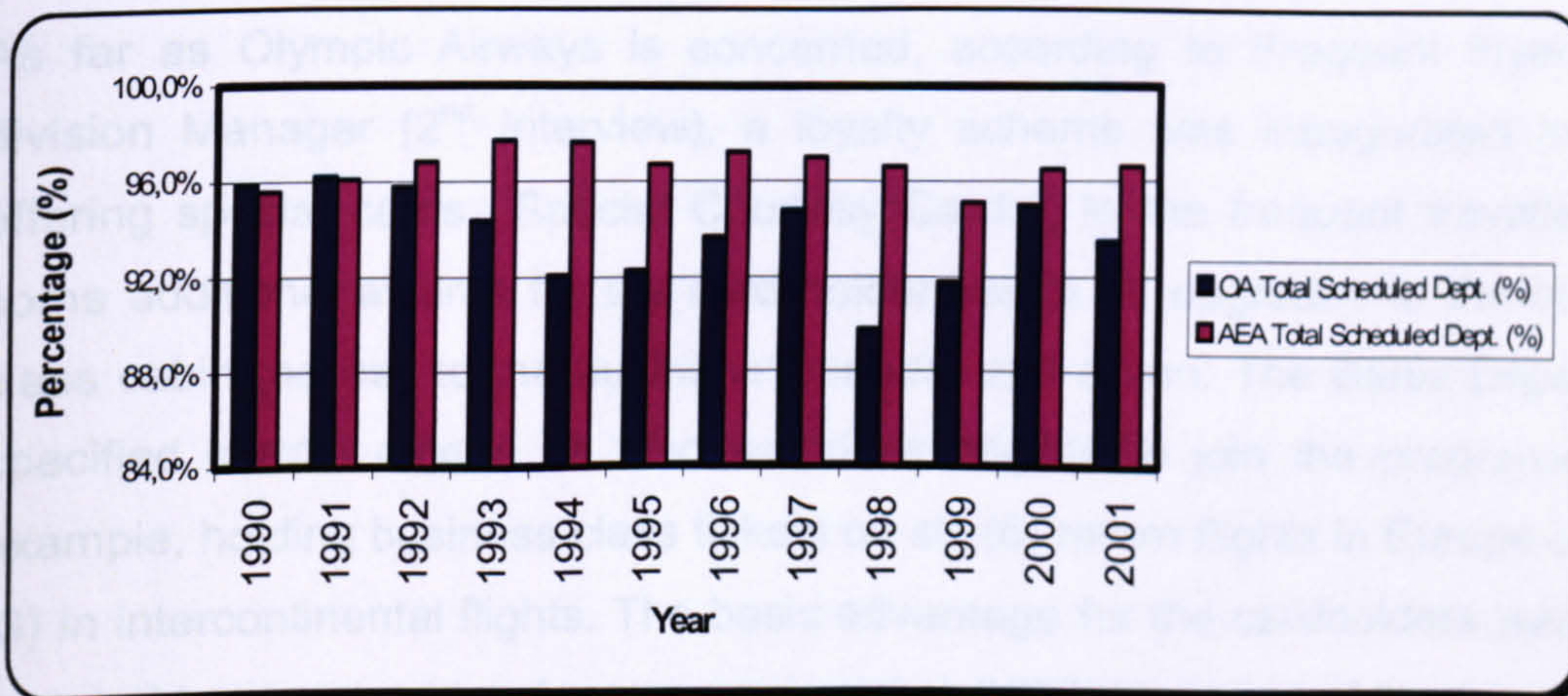


Figure 6.2.11 Olympic Airways and AEA average departures percentage within 60 minutes
(Association of European Airlines, RB11, Years 1990-2001)

Olympic Airways did not manage to achieve a competitive advantage through offering on-time departures for any of the examined period. The main reason for the delayed departures and arrivals is the aircraft rotation. Therefore, a better operational and scheduled management is necessary in order to improve the carriers punctuality. Also, the carrier did not manage to exploit the operation of

the new modern Athens International Airport (AIA) to improve its punctuality. Conclusively, Olympic Airways did not provide its customers with on-time departures, in the period 1990-2001, reducing its attractiveness.

6.2.1.3 Frequent Flyers Programme (ICARUS)

Frequent flyers programmes (FFPs) are valuable marketing tools by providing valuable behavioural information on key customers segments and are a way of encouraging customer loyalty. Moreover, they are a key selection criterion for business travellers, as it is estimated that over 80 per cent of European business travellers belong to a Frequent Flyer Programme (FFP) (Doganis, 2001, pp. 169). The implementation of a FFP can provide significant benefits for airlines, such as increasing high yield passenger traffic, and customers, as they provide additional privileges that can be attained by passengers who are loyal to a carrier.

As far as Olympic Airways is concerned, according to Frequent Flyers Sub-division Manager (2nd interview), a loyalty scheme was inaugurated in 1989, offering special cards ('Special Courtesy Cards') to the frequent travellers and some additional awards for the card holders such as upgrades to the business class cabin, access to the business lounges, and so on. The Sales Department specified certain criteria on who would be eligible to join the programme, for example, holding business class tickets on six (6) return flights in Europe or three (3) in intercontinental flights. The basic advantage for the cardholders was that if they held at least a high fare economy ticket (YEE6M – type of fare), they have the privilege of travelling in the business class cabin (upgrade). These passengers also had priority when they were on the waiting lists. However, this service resulted in a decline in the number of passengers who bought business class tickets (2nd interview). Consequently, Olympic Airways lost business class revenues due to the implementation of this loyalty scheme.

In 1993, a more advanced loyalty scheme was implemented, in order to improve the current 'Special Courtesy Card'. The new loyalty scheme provided golden and silver cards to the frequent travellers. Thus, Olympic Airways offered golden card to those passengers who had travelled at least 20 round trips, in the carrier's European or Middle East destinations and 12 round trips on the carriers long-haul routes or 15 round trips to long haul and Europe or Middle East Olympic Airways destinations. The silver card was offered to those passengers who had travelled 12 times in Europe or Middle East and 6 times in long haul routes or 10 times in Europe, the Middle East and long haul routes. Furthermore, the carrier offered card holders: accommodation in the Olympic Airways VIP lounges before and after the flight, hotel discounts, 30 per cent discount at Hertz and Avis car rental companies, higher allowance for baggage weight, the ability to order a special meal, and free baggage transfer. Therefore, the new loyalty scheme provided the carrier's customers with more privileges than the 'Special Courtesy Card' scheme, involved less paperwork for applicants, and more non Olympic Airways benefits, due to Olympic Airways co-operation non airline partners, etc. *"In the period 1993-1998, 2,900 cardholders enjoyed the privileges that Olympic Airways offered to its frequent travellers"* (2nd interview).

According to the Manager of Frequent Flyers Programme Sub-division (2nd interview), in October 1998, the current FFP, named ICARUS was implemented. This loyalty scheme is based on a miles system, like the other carriers FFPs, i.e. passengers gain more privileges when they travel more miles. This upgrade led to 10,000 new members participating in the scheme, in the three months period, October to December 1998, and in the years 1999-2001, 20,000 new members every year. By 2002, there were 89,000 members of ICARUS. However, the big European scheduled airlines (British Airways, Lufthansa, etc.) have more than 2 million members of their FFPs.

After a detailed study of Olympic Airways and other major airlines FFPs, namely British Airways 'Executive Club' and Lufthansa 'Miles and More' programme, a

comparison of the ICARUS programme with the other airlines FFPs provides useful insights. These specific FFPs were selected because these carriers place great emphasis on customer loyalty schemes making them the leading competitors in this area.

According to the manager of Olympic Airways FFP Sub-division (2nd interview) the main differences between Olympic Airways and other carriers FFPs are:

Card types: Olympic Airways offers three cards for individuals and one for corporate members; while the rivals offer several cards, allowing them to further segment the market to satisfy specific customer needs better. However, in contrast to the other carriers, Olympic Airways offers a family account.

Partnerships: Olympic Airways only has a few non-airline partners (Hertz, American Express); while the majority of other carriers are tied with other airlines – as members of the global alliances – as well as non-airlines partners.

Points redemption systems and benefits: Olympic Airways provides various types of offers. For 'free flights' offers, points required are comparable to other airlines. However, the rivals also provide creative and varied type of offers such as fast track check-in, hotel check-in, etc.

Promotional packages: Olympic Airways has limited plans due to the lack of staff in the FFP Sub-division. The rivals extensively use their database, which hold various pieces of information about their members and based on this information rivals offer a more outstanding service through better market segmentation.

Information on members: Currently Olympic Airways places limited emphasis on monitoring members' requirements. In contrast, rivals have established an extensive monitoring system of members, including preferences of meals, demographic data, and so on.

Communication of the FFP: Olympic Airways has limited communication with ICARUS members; while the others undertake strong promotions to increase

penetration by enhancing the number of members and increase usage of the FFP from the current members.

Number of members: Olympic Airways has a relatively small number of members, only around 1.5 per cent of the passengers travelling. In contrast, the other carriers have a very large number of members. For example, British Airways FFP, 'Executive Club', has 5 million members.

Operational support/resources: Olympic Airways ICARUS has internal support by the carrier's IT department. However, ICARUS staff are not specialists in database management and marketing. In addition, ICARUS is not promoted by other departments (sales, reservation, check-in, etc.) within Olympic Airways. Also, limited resources are invested in further development of ICARUS, less than 1 per cent of the airline's net revenues. On the other hand, the rivals provide outstanding support systems and significant resources (5-10 per cent of their revenues). Moreover, all the other departments co-operate, support and extensively promote their FFPs (2nd interview).

Comparing Olympic Airways with regards to other Greek carriers, Olympic Airways is a pioneer of FFP services in Greece. Aegean Airlines, the main Greek competitor of Olympic Airways has only recently (in 2003) developed its own FFP ('Miles and Bonus'). The other Greek new entrant (Hellenic Star) is very small and has not implemented any kind of FFP (2nd interview). Therefore, Olympic Airways has a competitive advantage over both Aegean Airlines and Hellenic Star, offering this facility to its customers to increase loyalty.

According to the manager of Olympic Airways FFP Sub-division (2nd interview), the most important difference between Olympic Airways and other carriers FFPs – as mentioned above - is that in the others airlines FFPs are more closely monitored and supported by all organisation departments. Thus, it is very important for the reservation agent to first ask the passengers if he/she is member of the carrier's FFP, air hostess to announce the miles of the flight, and for marketing and sales personnel and all airline's staff to promote the carrier's

FFP. These practices do not take place in Olympic Airways. In addition, all the customers complaints regarding FFP service offering relate to the fact that the members do not receive the appropriate attention when they contact the carrier's staff. Also, the lack of partners is another main disadvantage of ICARUS. The airline must look for additional airline and non-airlines partners. However, another major problem is that Olympic Airways FFP's Sub-division is understaffed and this is a hindrance in the provision of high calibre service. Moreover, a FFP is more effective; increasing customer loyalty, when supported by a competitive product and where strong business traffic exists (Doganis, 2001, pp. 72-73). This is a problem for Olympic Airways as the product is currently weak (no superior service in-flight or on the ground) and its business traffic is relatively limited (2nd interview).

As far as the examined period 1990-2001 period is concerned, although ICARUS has a potential for further development, Olympic Airways did not offer a customer oriented FFP compared to the main international rivals.

Given that this can have a significant impact on customer loyalty, Olympic Airways management should place more emphasis on the development of the ICARUS programme. The basic functions could be outsourced to allow more resources to be invested in the development of ICARUS services. Alliances with other airlines FFPs and with non-airlines partners, and the support from all the organisation departments is necessary in order to strengthen ICARUS appeal and to become more customer oriented. This would then offer an advantage to Olympic Airways over its domestic rivals and put them on a similar level with international rivals FFPs.

6.2.1.4 Convenient Schedules

Convenient departure times is an important selection criterion, according to figure 2.10 (chapter 2), particularly for passengers who travel for business purposes.

Early morning and late afternoon flights are the most preferable for these travellers. Early morning times are attractive for leisure passengers because they gain time, arriving early to their destinations. However, the main priority for leisure passengers is lower fares. Early morning flights are also convenient for transit passengers, who are travelling via hubs to their final destinations. This passenger traffic is very important for every airline because they travel more than one segment, adding more revenue to carrier. Both early morning and late afternoon flights are good for business travellers (IATA, 1996, pp. 19). Therefore, those airlines that offer customer oriented departures times gain a competitive advantage over their rivals.

However, airport capacity restricts the number of early morning and late afternoon flight departures. This is a significant problem, especially in the major European airports-hubs, which do not offer carriers the ability to place departures in convenient times according to customer needs. A solution to this problem is to move operations to the other less busy secondary airports (such as Gatwick instead of Heathrow in London or Charles de Gaulle instead of Orly in Paris). However, primary airports are more attractive for passengers than less busy, secondary airports.

Another factor that needs to be taken into consideration is the current EC legislation. This is in favour of the new entrants (i.e. barriers are less for them), giving them a priority on the requested departure times against the established airlines. On the other hand, the established carriers hold 'historical slots' - departure times that have been the same for a long time - that they do not like to change because there is a risk of losing their place (e.g. Olympic Airways in London Heathrow, Frankfurt, and so on) (3rd interview) and, through the existing 'grandfather rights', control these slots that passengers find convenient, achieving a major competitive advantage (Doganis, 2001, pp. 15). However, customer needs continually change and, therefore airlines should monitor them and adjust their offerings accordingly.

Olympic Airways main interest is to feed traffic to the Athens hub for European points. Therefore, Olympic Airways route network is designed in such a way that the very early morning flights from the domestic destinations and arrivals from the Middle East and Eastern European points feed the Western European flights. Thus, the carrier's European flights depart between 08:00am to 10:00am, i.e. after the arrival of the domestic East European and Middle East flights. On the other hand, the Olympic Airways scheduled European competitors are interested in feeding their home hubs for 'beyond Europe' traffic. Furthermore, their objective is to offer those departure times which suit the business customers requirements. The other Greek competitors, Aegean Airlines, Cronus Airlines and AXON Airlines (which ceased operation in 2000) mainly had midday and afternoon departures to the European destinations, connecting passengers from their domestic network.

Table 6.2.1 presents the departure times from Athens to London, Amsterdam, Paris and New York for all the airlines that operate in these routes. These destinations were selected and examined as they are some of the most important for Olympic Airways, in terms of business traffic. Therefore, Olympic Airways should offer departure times that are attractive to this market segment. This market segment prefers early morning and late afternoon flights, in order to make same day trips to European destinations. In addition, the timetable for a typical Monday in July for 1990, 1995 and 2001 was selected for analysis because it is representative of a usual working day.

Table 6.2.1 Summer Period Scheduled Departures (July - a typical Monday)							
City Pair	Carrier	1990	Carrier	1995	Carrier	2001	
ATHENS-LONDON	OA	08H05	BA	08H05	U2	06H50	
			BA	08H10	VS	07H45	
			OA	13H40	BA	08H10	
			BY	16H10	OA	09H10	
			BA	18H55	BA	13H20	
				BA	18H35	BA	15H25
				VS	19H10	VS	18H00
				OA	19H35	BA	19H05
						OA	19H10
						X5*	19H30
						A3*	19H30
						U2	20H00
	ATHENS-AMSTERDAM	KL	07H45	KL	06H05	KL	06H00
OA		09H20	OA	09H10	OA	09H10	
			KL	15H10	KL	15H05	
					KL	20H05	
ATHENS-PARIS	OA	10H00	OA	10H00	AF	06H55	
	AF	14H15	AF	14H15	XN	08H10	
					OA	09H50	
					X5	10H20	
					A3	10H20	
					AF	15H00	
					OA	15H50	
ATHENS-NEW YORK	TW	12H15	OA	10H00	DL	12H20	
	OA	13H40	DL	12H00	OA	12H20	
			TW	12H30			
			OA	12H40			

Source: OAG, Summer 1990, 1995 and 2001 Timetables

* The Greek carriers Aegean and Cronus Airlines cease operation to London.

(where OA: Olympic Airways, BA: British Airways, BY: Britania Airways, VS: Virgin Atlantic, U2: Easyjet, X5: Cronus Airlines, A3: Aegean Airlines, KL: KLM, AF: Air France, XN: Axon Airlines, DL: Delta Airlines, and TW: TWA)

Table 6.2.1 presents that Olympic Airways was the airline with the earliest morning flight from Athens to London in 1990. In 1995 it had the third earliest, having moved its slot from 8.05 to 9.25, and in 2001 the fourth earliest flight. This proves that the other airlines have adjusted their schedules to passengers requirements better than Olympic Airways. A big improvement for Olympic Airways was the introduction of the early evening flight (flight number OA265 departing at 19:35) to London in 1993.

Overall, British Airways has better scheduled departure times than Olympic Airways, placing one flight in the morning and one in the afternoon, and having added another early afternoon flight in 2001. Easyjet (U2), also, has very convenient departure times for travellers who travel between Athens and London, but is not a preferable service for passengers with connecting flights ('beyond traffic') because this carrier does not have a transcontinental network. The Easyjet's good departure times are partly explained by the fact that the carrier operates mainly from a secondary, less busy, airport (Luton Airport). In addition, Virgin Atlantic (VS) also have the same pattern of departure times as Easyjet but have an advantage over Easyjet in that it operates from London Heathrow and Gatwick airports. British Airways and Virgin Atlantic also have an extended network beyond London. Therefore, their objective is to feed their London hubs with connecting traffic. However, Virgin Airways recently (at the end of 2001) ceased operation to/from Athens.

For the Athens - Amsterdam route, KLM has a very early morning flight, because this carrier focuses mainly on the connecting traffic via the Schiphol hub. In contrast, Olympic Airways has a later departure due to the arrival times of domestic and Middle East flights. KLM has increased its flights from one in 1990, to two in 1995 and three in 2001, adding early morning and late afternoon flights. The impact of these will be discussed shortly.

For the Athens-Paris route, Olympic Airways had the earliest flight in 1990 and 1995. However, in 2001 Air France increased their flights, placing early morning and late afternoon flights. Olympic Airways has only one flight and its departure time has remained almost the same during the 1990-2001 period. This absence of flexibility by Olympic Airways has impacted on the carrier's performance, which will be discussed shortly.

For the Athens – New York route, all the operating carriers have departure times in midday hours, except Olympic Airways in 1995, where the carrier had spare B747-400 aeroplanes during this year (3rd interview). *“The main objective of Olympic Airways is to feed traffic from the domestic, Middle East and East European destinations to the Athens – New York flight. In addition to these flights, Olympic Airways adds some extra flights to New York in the summer peak period (July-August) in order to serve the increased summer traffic to Greece”* (3rd interview). On the other hand, the competitors are interested mainly in carrying traffic that is travelling beyond the New York hubs, to other USA destinations. Therefore, all the carriers who operate this route are more interested in connecting traffic, although this practice is also true for all the long haul routes.

Table 6.2.2 presents the market shares of the carriers who's departure times were displayed in table 6.1.1 and who offer direct service from/to Athens to these destinations (passengers who travel on these routes via other points and airlines are not included i.e. Athens-New York via London or Amsterdam with British Airways or KLM are not included), in order to assess the outcome of these planned departure times.

The other main impact on market share besides the convenience of flight times is the frequency of flights per day. Thus, in 2001, Olympic Airways had three daily flights, British Airways had the same number of flights with Olympic Airways, Easyjet had two flights, Aegean Airlines and Cronus Airlines had one. This resulted in the first two airlines having higher market shares than the others who had fewer flights per day.

Table 6.2.2 Olympic Airways and Competitors Market Share

City Pair	Carriers	1990	1995	2001
Athens-London-Athens	OA	50.80%	40.90%	31.51%
	BA	49.20%	53.25%	31.43%
	VS		5.85%	11.94%
	U2			18.27%
	X5			6.85%
Athens-Amsterdam-Athens	OA	41.90%	24.91%	23.80%
	KL	58.10%	75.09%	76.20%
Athens-Paris-Athens	OA	52.20%	54.87%	30.70%
	AF	47.80%	45.13%	48.30%
	X5			11.40%
	XN			9.60%
Athens-New York-Athens	OA	59.87%	46.94%	59.60%
	DL		18.22%	40.40%
	TWA	40.13%	34.85%	

Source: Greek Civil Aviation Authority (1990 and 1995 data),
Athens International Airport, Marketing Department Statistics (2001 data)

(where: OA: Olympic Airways, BA: British Airways, VS: Virgin Atlantic, U2: Easyjet, X5: Cronus Airlines, KL: KLM, AF: Air France, XN: Axon Airlines, DL: Delta Airlines and TW: TWA)

As table 6.2.2 shows, Olympic Airways has lost a significant part of its market share on the Athens-London-Athens route, during the 1990-2001 period (from 50.8 per cent in 1990 to 31.5 per cent in 2001). However, British Airways (BA) have shown similar losses despite the fact that it seems to offer a better schedule than Olympic Airways. This can be explained by the fact that a large number of the passengers using this route travel as tourists or to visit family/friends and relatives (VFR), and therefore have a tendency to select lower fare airlines. Olympic Airways and British Airways have lost market share because other airlines (Easyjet, Virgin Atlantic Airways and charter operators) have entered to this route offering lower fares. Although Olympic Airways and British Airways hold the majority of the market share on this route, the other new entrants have started to gain significant market share. This proves that, in addition to convenient departure times, price is also a key issue for those passengers who travel on the Athens-London-Athens route.

Olympic Airways has also seen a dramatic decrease in market share on the Athens-Amsterdam-Athens route from 41.9 per cent in 1990 to 23.8 per cent in 2001. This can be explained by the fact that the majority of passengers who travel on this route continue beyond the Amsterdam airport, and KLM offers more frequent and more convenient times for this passenger segment. The impact of these more convenient and frequent flights is shown by the significant market share gains made by KLM.

On the Athens-Paris-Athens route, Olympic Airways had lost significant market share to the other Greek private airlines, dropping from 52.2 per cent of market share in 1990, to 30.7 per cent in 2001. In contrast, Air France has kept its market share during the same 1990-2001 period, despite the entrance of the other airlines (Greek private airlines) which suggests that the increased number of Air France flights provided consumers with more choices and, therefore, enabled them to remain competitive.

On the Athens-New York-Athens route, Olympic Airways had achieved a satisfactory market share, which has remained unchanged during the examined period (more than 50 per cent). On this route the competition is not too intense for direct services. It is also clear that not many competitors have entered this route. The competition comes from carriers such as KLM, Lufthansa, British Airways, etc who offer convenient schedules via their European strong hubs. Passenger data and market shares are not available for these carriers on the specific routes discussed. Also, these airlines co-operate, as members of the global alliances or have special code-share agreements with other American airlines for flights within USA. Moreover, some of them operate directly from their home bases to destinations within USA. Therefore, the big European carriers (British Airways, Lufthansa, KLM, etc.) having a stronger global network alone and as members of the global alliances, offer more choices to their passengers and therefore have an important advantage over Olympic Airways. The more

choices offered and the more convenient times partly explain the higher market shares that these carriers achieved.

In conclusion, carriers should adjust their schedules to the target customers needs. Olympic Airways main objective is to offer a connecting service to/from domestic and Middle East network to its European and New York flights. Olympic Airways participation in one of the major global alliances would assist the carrier in significantly increasing its traffic beyond European and within the USA destinations. Canadian routes (Montreal and Toronto) are also important for Olympic Airways and its schedule times are designed on other routes to feed these routes (similar pattern with New York schedules). However, the major problem for Olympic Airways is that its departure times have remained almost the same for all the examined period 1990-2001. This has resulted in Olympic Airways losing significant market share to its competitors, who offer more attractive scheduled departure times, adjusted to the continuously changing needs of customers. Therefore, a review of Olympic Airways departure times is necessary in order to become more customer oriented.

6.2.1.5 Commercial Agreements

The international air transport system is dominated by four global alliance groupings, as it mentioned in the second chapter. These four groups are: Oneworld, SkyTeam, Star Alliance and Wings.

An airline that wishes to remain in the international market must find a particular role in a suitable alliance otherwise there is a risk of becoming a small, regional player. Becoming part of an international alliance guarantees a substantial increase in total revenues (O'Toole, 2002, pp. 42), however, the participation in an alliance requires the provision of high quality services, both physically in terms of product, (e.g. network, aircrafts, flights), and economically in terms of effectiveness and competitiveness (Doganis, 2001, pp. 71). At the present time,

Olympic Airways is not participating in these global alliances and consequently loses the benefits which its competitors gain by participating in an alliance. However, Olympic Airways is attempting to rectify this through the signing of commercial agreements and this should enable Olympic Airways to increase its revenues.

Table 6.2.3 presents the evolution of the Olympic Airways commercial agreements with other carriers.

Table 6.2.3 Olympic Airways Commercial Agreements

Years	Airlines	Destinations served
1990		
1991		
1992		
1993		
1994		
1995	Saudia Air.	Riyadh, Jeddah
1996	VASP	Rio De Janeiro, Sao Paolo
1996	Saudia Air.	Riyadh, Jeddah
1997	VASP	Rio De Janeiro, Sao Paolo
	Swissair	Zurich
	Aerosweet	Kiev
	Balkan Air.	Sofia
	Saudia Air.	Riyadh, Jeddah
	Kuwait Air.	Kuwait
1998	Saudia Air.	Riyadh, Jeddah
	Kuwait Air.	Kuwait
	VASP	Rio De Janeiro, Sao Paolo
1999	Aerosweet	Kiev, Odessa
	TAP Air.	Lisbon
	Balkan Air.	Sofia
2000	Czech Air.	Prague
	Aerosweet	Kiev, Odessa
	TAP Air.	Lisbon
	Balkan Air.	Sofia
2001	Alpi Eagles	Venice
	Aerosweet	Kiev, Odessa
	TAP Air.	Lisbon
	Air Malta	Valetta
	Czech Air.	Prague

Source: Olympic Airways Seasonal Timetables.

The carrier had signed only code-share⁴ agreements with a few carriers. These agreements are classified into two categories:

- Olympic Airways is the operating carrier; and
- other airlines act as the operating carrier on behalf of Olympic Airways.

Thus, in the agreements with Saudia, Kuwait, Swissair, and Balkan the operating carrier was Olympic Airways and the other carriers had bought some seats on these flights. On the other hand, in the case of the agreements with TAP, Alpi Eagles, Aerosweet, Air Malta and Czech Airlines, they were the operating carriers and Olympic Airways had bought some seats on their flights. The advantages of these agreements for Olympic Airways was higher load factors and cost savings (lower cost per passenger travelled) particularly in those agreements where Olympic Airways was the operating carrier.

In the period 1990-1994, Olympic Airways did not have any code-share agreement with other airlines. The first agreement was introduced in 1995 with Saudia Airlines on the Athens to Jeddah and Athens to Riyadh routes. More code-share agreements were developed between 1997 and 2001 such as Alpi Eagles, Air Malta, Aerosweet and Czech Airlines. In these agreements Olympic Airways sell some seats (30-50) to these customers. However, these agreements have only produced about 20,000 extra passengers annually and less than 2.5 million EURO annual revenue. Therefore, these agreements do not contribute significantly to Olympic Airways passenger revenues as they represent approximately 0.4 per cent of the carrier's total revenues and of the total passenger traffic. The major problem with these agreements is that the other departments of Olympic Airways do not support them and do not promote these agreements. This is the main reason why these agreements do not contribute more to the Olympic Airways revenues (Olympic Airways, Financial Department – informal discussions).

⁴Code Sharing involves one carrier using its designator code on a service operated by another. The ticket will carry the code of one airline, while the service will be provided by another carrier under its own brand.

Thus, at the time when the majority of the European Airlines (Olympic Airways direct competitors) participate in global alliances and reap significant benefits – as mentioned in chapter 2 - Olympic Airways conducts agreements with other airlines, without providing appropriate support for them and do not reap significant benefits. More efficient promotion and support from all the carrier's departments (reservations, sales, etc.) would improve the contribution to Olympic Airways revenues. In addition, commercial agreements with other airlines within US domestic market and beyond Bangkok will enforce the carrier's position in North Atlantic and Australian market (Olympic Airways ceased operation to Australia in 2002).

It is clear that during the examined period, Olympic Airways did not significantly enhance its product offerings through the use of commercial agreements. The lack of commercial agreements also meant that they did not achieve the cost benefits possible. The author, therefore, concludes that for Olympic Airways to compete into the future it must sign up to the already formed global alliances.

The analysis of the above elements proves that Olympic Airways did not adopt strategies that enforce the carrier's customer orientation during the 1990-2001 period. At the same time, Olympic Airways competitors were focused on this direction, improving their service offering in line with their customers requirements. This has been shown to have a significant negative impact on Olympic Airways performance.

6.2.2 Competitors Orientation

An important element of market analysis assisting decision making is the clear identification and evaluation of competition. Understanding competitors and the strategies that they are pursuing is very important for Olympic Airways for three main reasons:

- Most markets have become increasingly competitive over the past few years.

- In mature or saturated markets individual company growth can only be pursued at the expense of competitors.
- The increasing speed of technological change has brought with it more fluid competition.

Therefore, Olympic Airways needs to focus on analysing the competition in order to address competition appropriately in today's changing environment and defend its business. Olympic Airways does not have a department dedicated to assessing how competitors strategies, performance and actions are working, how these impact on Olympic Airways business, and what strategies the carrier should follow to defend itself. At present, competition is monitored on an ad hoc basis by each individual department, which does not provide a thorough picture and provides a rather fragmented viewpoint (Olympic Airways, 1998-2002 Business Plan, 1998).

Olympic Airways collects data and monitors its competitors mainly through the international aviation organisations AEA and IATA, where all industry participants exchange information concerning relative aspects. However, this information is not sufficient in order for the carrier to implement a competitor orientation. More information concerning all competitors' actions is necessary in order for a clearer competitor orientation to be adopted. Information is not available on the numbers of complaints the competitors receive nor is the competitors policy for dealing with customers complaints known (1st interview). This information would be useful for the carrier to learn how passengers assess the competitors service offering. However, other information concerning competitors schedules, pricing policies, and product innovation, etc are known to the carrier when they are announced.

During the period 1990-1997, Olympic Airways did not react at all, or reacted with significant delay, to the strategies of competitors. The reasons were that the governmental support was higher in this period and competition had not been

very intensive, particularly in the domestic market, causing Olympic Airways to become complacent. *“Olympic Airways flights scheduling has been based more on the aeroplanes and slot availability, and less on monitoring competitors schedules”* (3rd interview). This is clear from the fact that during the study period 1990-2001 no significant schedule changes took place for Olympic Airways, as shown by table 6.2.1. On the other hand, the carrier’s competitors changed their schedule times and were rewarded with significant improvements mainly in market share (see table 6.2.2). Thus, Olympic Airways have lost a significant market share from passengers who travel to/from Athens airport from around 50 per cent in the mid 1990s to 35 per cent in 2002 (Olympic Airways, Network Analysis Sub-division data). There were also many cases in which the other Greek airlines had acted before Olympic Airways, mainly because they had more flexibility to introduce commercial innovations, unlike Olympic Airways, where governmental approval was necessary to make changes. Thus, the Greek private airlines had acted before Olympic Airways and placed earlier morning flights from Athens to Thessaloniki - the busiest domestic route - during the period 1998-2000.

As far as Olympic Airways pricing strategies are concerned, and according to the Director of Pricing Policy Division (4th interview), *“the carrier monitors its competitors actions most of the time, but tends to follow them on the price innovations, particularly its foreign rivals. Fare discounts initially offered by competitors in the international markets are later adopted by Olympic Airways”*. On the other hand, in the period 1998-2000, when many Greek domestic airlines were in operation, Olympic Airways was introducing heavy discounts, in order to push them out from the domestic and international markets. This aggressive pricing strategy by Olympic Airways led these carriers (Venus, Air Greece, AXON, etc.) out of the market and at the present time only two key players remain in the domestic market, Olympic Airways and Aegean Airlines⁵. In September 2000, Aegean Airlines increased its economy domestic fares and for

⁵ Aegean Airlines: The main Greek competitor to Olympic Airways.

the first time had offered higher fares than Olympic Airways. This fare increase was based on the carrier's achieved strong market share and its higher quality product. Olympic Airways reacted with similar levels of price increases. In addition, pricing policies introduced by Aegean Airlines, at the end of 2002, were adopted early by Olympic Airways. Aegean Airlines and international airlines (British Airways, Lufthansa) had set fuel surcharges and Olympic Airways had followed them, in 2004 (4th interview).

A carrier's policy on commission to travel agents is very important competitive tool because a large number of passengers buy their tickets through travel agents, particularly for conventional scheduled carriers. Therefore, carriers with a more attractive commission policy can gain significant benefits by influencing travel agents to favour them. Commission innovation, through higher commission levels or other incentives given to agents, has been introduced by Greek and international airlines (e.g. KLM, Alitalia). KLM is the most active international carrier in the Greek market concerning commission policies – having offered agents various discounts in cases where they achieve specific targets) (4th interview – informal discussions). *“In February 2003 Olympic Airways adjusted its commission policy, offering 9 per cent commissions to the travel agents in Italy and Germany, while Aegean Airlines had, a few days before offered 8 per cent commission”* (4th interview). The impact of this has not been counted and there are no data available at the present time.

As far as product design is concerned, according to the Product Management Director (5th interview), *“since 1998 Olympic Airways had placed emphasis on the competitors actions but not to the required extent. They have generally copied the innovations that the other, mainly international, competitors offered”*. Olympic Airways had imitated the Greek private competitors introducing the business class on the domestic network in 2000 and upgrading the on-board catering. Olympic Airways reacted later than the other scheduled foreign competitors, concerning the FFP, which was first introduced in 1998. Also, the introduction of

the new in-flight magazine ('MOTION'), in 2001, is a copy of Air France magazine. However, the Olympic Airways magazine has since been imitated by the other Greek airlines. In addition, Olympic Airways was the last carrier to adopt the non-smoking policy (5th interview). Even though Olympic Airways has a more extensive network, more revenues, and more assets (aeroplanes, other facilities, etc.) than these other Greek airlines, Olympic Airways still usually follow them on the introduction of most commercial innovations.

According to the Head of the Product Management Division (5th interview), *"there are a few cases where Olympic Airways had adopted a pro-active role offering significant product innovations in front of the other, mainly domestic airlines"*. For example, ceasing operation of the First class in the short and medium haul trips in 1990, before other airlines followed similar actions. Olympic Airways were the first to create the family account for the members of its FFP (ICARUS) in 1998. British Airways has adopted this innovation since 1st July 2003. In addition, Olympic Airways were first to offer Greek traditional meals on board for all flights, in 2002, and were then followed by the other Greek domestic carriers and by international airlines on their flights to/from Greece. Olympic Airways was also the first Greek airline to upgrade their Airbus A340-300 product, offering sleeper seats and personal screens to the Olympic Airways long haul customers. This service has been partly adopted by the other Greek private airlines on their flights that are, in fact, shorter than Olympic Airways (5th interview).

Summarising all the above, it is clear that Olympic Airways tends to follow its international competitors, and has mainly a reactive role against them. Also innovations introduced by Olympic Airways tend to be based more on the general trend and less on the detailed monitoring of the competitors. However, it does tend to lead its domestic rivals on the introduction of a number of innovations. It is evident that Olympic Airways did not adopt clear and identifiable strategies towards competitor orientation during the 1990-2001 period. The lack of an aggressive competitor orientation by

Olympic Airways has been illustrated by the carrier lower competitiveness against main rivals and the low performance during the examined 1990-2001 period. The creation of a separate department, responsible for monitoring competition and distributing information requested by the carrier's departments would contribute substantially to the carrier adopting a clearer competitor orientation.

6.2.3 Inter-functional Co-ordination

Narver and Slater (1990) pointed out that the co-ordination of departments within a firm is required to define a market orientation. This interdepartmental co-operation is necessary to support a firm's customer and competitor orientation.

After long discussions with officials from all the carrier's departments, useful insights were extracted of how the various departments co-ordinate within the carrier and what the problems are.

A major problem for Olympic Airways is the lack of communication between the main functions. There is a conflict of objectives between the three major functions, Commercial, Financial and Operational. The objective of the Commercial Departments - Marketing Department and Sales Department - is to improve the commercial performance of the carrier by adopting a market orientation. The Financial Department focuses on increasing revenues through minimising the carrier's costs. The Operational Departments - Flight Operations Department and Technical Department - emphasise the operational issues, which ensure the conduct of day-to-day business. Although these objectives are common for the departments of airlines, in Olympic Airways the major Departments pursue their own objectives and place less emphasis on the firm's overall objectives. Thus, there are cases where one department undermines the carrier's overall objectives set by top management because they think that they will lose their power. In addition to this lack of co-ordination regarding

objectives, is the impact of the strong unions and their intervention in the management of the carrier. However, as highlighted by Narver and Slater (1990), top management should combine the various departments interests in order achieve the firm's objectives.

This interdepartmental conflict has resulted in the commercial strategies not being supported by the Operational Department during the implementation process and by the Financial Department not providing the necessary funds in order for these strategies to succeed. This has resulted in the commercial strategies being implemented inefficiently and Olympic Airways offering a less attractive service compared to those of competitors.

In addition, the major problem within the Commercial Department of Olympic Airways is that there is conflict between the Marketing and Sales Department. The carrier's Marketing Department was established in 1991 and main objective is to improve the commercial performance, setting optimistic targets (higher number of passengers, higher market share, higher average fares, etc.) for the sales people to achieve. However, the Sales Department does not pursue these targets efficiently. This is particularly true when the Marketing Department proposes and makes commercial agreements with the other airlines (code-share agreements) but the Sales Department does not support them as efficiently as it could.

Furthermore, the Financial Department sets strict cost controls, pushing the Commercial Departments to minimise investment in customer services, whereas this is an area where competitors invest heavily. Thus, strict monitoring of the investments in advertising, of the policy on travel agents commission, of the loyalty schemes, and so on, may well be undermining the success of the carrier's commercial strategies.

The Operational Department's main interest is to maintain the high safety standards, often keeping aeroplanes down for long periods for maintenance reasons, in contradiction with the objectives of the Commercial Departments who need the aeroplanes to be flying as much as possible. However, the main characteristic of this group of employees is the considerable union power, exerting significant pressure on the carrier's management to decide in favour of them. Commercial innovations that are not in accordance with the interest of this group of employees, are not supported by them. In 1996, a firm, as a part of the promotional strategy, agreed with the carrier's Marketing Department to offer its product on-board to customers free of charge, but the cabin crew refused to give them to the carrier's passengers because it added to their workload. The cabin crew union had intervened immediately and this promotional effort was stopped, because the cabin crew were *"uninterested in the commercial strategy of the carrier"* (5th interview).

According to the Head of the Scheduling Planning Sub-division (3rd interview), in the procedure of the airline's schedule, the Marketing Department pushes for flight times that are convenient for customers, the Operational Department pushes for less use of the aeroplanes to allow more time for maintenance and better crew rosters, and the Financial Department pushes for a more cost-conscious schedule. The aeroplane acquisition over the last few years was based equally on the carrier's operational and commercial requirements. On the other hand, in the 1980s operational requirements dominated more than commercial in the aeroplane acquisition process, leading to poor decisions being taken regarding aeroplane acquisition, with the carrier acquiring aeroplanes that had higher capacity than was necessary, and were less convenient for customers etc. There are cases (in 1980's and 1990's) where the changes in management led to changes in decisions on the aeroplane types, which meant higher costs for the carrier. In addition, the Cargo Department operates autonomously and has little communication with the other Departments of Olympic Airways.

Inter-functional co-ordination is also an issue between Olympic Airways and Olympic Aviation, a subsidiary of Olympic Airways, which operates autonomously, and sometimes implements different and contrasting commercial strategies to those of the mother airline. Thus, the Olympic Aviation schedule sometimes does not feed the Olympic Airways flights, despite the fact that this was the reason for establishing Olympic Aviation. However, this situation has been improved over the last few years according to the Scheduling Department Director (3rd interview), because since 2002, Olympic Airways has prepared the schedule for Olympic Aviation so that it feeds the Olympic Airways flights, as it should.

The role of Marketing is decisive for market oriented organisations, as customer orientation strategies are based on market feedback, but also need to be supported by all the other departments. As far as Olympic Airways is concerned, the major problem is the mis-communication between the 'planners' and the 'implementers' (4th interview and 5th interview). The role of top management is to balance priorities and encourage co-operation between the Olympic Airways Departments mainly Marketing and Operations. Moreover, the contribution of the other Departments, particularly the Financial Department, is necessary for co-ordinated action (for the provision of funds).

Since 1997, Olympic Airways has adopted a new organisational structure, designed by McKinsey & Company, Inc., in order to shift the carrier from a production-driven, bureaucratic structure to a market oriented company. This structure decreased the management levels from 8 to 5 and reduced the staff who hold managerial positions more than 30 per cent (Olympic Airways, 1998-2002 Business Plan, 1998). Many of the modifications suggested by the original proposed structure have taken place, and the current structure is much improved over the previous one, where many functions had overlapping duties and one in three employees held a responsible position.

The main cause of the lack of inter-functional co-ordination within Olympic Airways was the lack of an efficient information system, which would provide useful information to all departments. Before 1998, Olympic Airways had no central information system for supporting all the carrier's functions. The establishment of an efficient Management Information System (MIS) was a prerequisite of the second restructuring plan (R. 2602/1998) by the EU, and the Olympic Airways MIS was established in 1998. Olympic Airways invested 1,2 billion GDR (4 billion USD) during 1998-2000, in the design, development/procurement, installation and operation of a full scale MIS, which provides detailed information on Olympic Airways and competitors passenger traffic, Olympic Airways offered seats, passenger and cargo load factors, revenues, and some cost reports. However, it has not made significant improvements to the inter-functional co-ordination because it is not widely used within the carrier. In addition, the MIS is not used by the top management to make strategic decisions (6th interview).

A further problem that affects the lack of inter-functional co-ordination and the current bad situation is the continuous government intervention in the daily operation of the carrier. Between 1975 and 2001 Olympic Airways has had thirty-one chairmen, with an average job expectancy of ten months. The Greek government interferes in the operations of Olympic Airways, on many occasions suggesting the carrier instigate new routes that are not commercially viable (as in the case of Budapest, Tokyo and so on). Also, commercial innovations introduced by the carrier need four or five signatures by the governmental offices. This makes Olympic Airways less productive and makes it impossible to compete against the other private airlines which are more flexible. This is exacerbated by the current competitive situation, which requires quick reactions by the carrier's management.

The unions also contribute significantly to the lack of inter-functional co-ordination as they expect to have a say in every promotion or appointment and

are interested in placing their supporters into key posts. Union leaders have reacted when anyone was promoted to a middle or junior manager's post whom they had not approved, and asked for such decisions to be reversed, even threatening strike action (Doganis, 2001, pp. 190). In addition, every group of Olympic Airways employees has its own union, which creates inter-functional conflict. The strong union power of pilots, cabin crew and technicians also directly affects the operation of the airline. Any commercial innovation that requires an effort by the operational employees, often meets with union resistance. Therefore, the excessive government and unions interference influences many decisions and lead Olympic Airways to delay innovation and change.

Conclusively, the various functions of Olympic Airways are not well coordinated in order to support market orientation. This has been improved by the new structure implemented, however, all departments within Olympic Airways must also make use of the MIS in order to contribute significantly to the interdepartmental connectedness. The current MIS should be improved by including much more information about the carrier's activities, more data on competitors and industry analysis is also necessary. Also, the government and union intervention in Olympic Airways daily operation needs to be reduced so that the carrier can operate independently with market oriented objectives.

6.2.4 Conclusions

From the above analysis of the Olympic Airways customer orientation, competitor orientation and the inter-functional co-ordination, during the period 1990-2001 and from the analysis of the carrier's performance for the same period, as presented in chapter 3, the following conclusions are extracted:

- the carrier did not offer a higher quality customer oriented product, during the 1990-2001 period. The carrier has tended to place more emphasis on low yield tourist and passengers visiting friends and relatives (VFR) and less on higher yield business traffic. In 1994-1996, more emphasis was placed on upgrading the carrier's product and the carrier also trained its employees to support this improved service. Olympic Airways improved its customer orientation from 1998 and onwards, buying or leasing new modern aeroplanes, upgrading its existing Frequent Flyer Programme (FFP), placing more emphasis on customer complaints, and making more code-share agreements. However, the carrier cannot compete with the other carriers regarding customer orientation, therefore, strategies towards customer orientation are adopted by the carrier more as a reaction imitating competitors and less as a well designed long term strategy. The lack of management continuity constrained the effectiveness of adopted customer orientation.

- Olympic Airways generally adopted a reactive role against its competitors. Innovations implemented by competitors were adopted by Olympic Airways after a time lag. The carrier does not systematically monitor information regarding competitors activities, which is a necessary step in the process of evaluating Olympic Airways competitive position in its various areas of operation and formulating competitive tactics. The creation of a separate department will assist the carrier in this direction.

- Olympic Airways should also improve the interdepartmental connectedness, in order to create an organisation where a market orientation can flourish. A centralised organisational structure, at least initially, can assist organisation to improve inter-functional co-ordination. However, it is also important for the carrier to operate more autonomously and it is urgent that government and union interference stops, otherwise the carrier will not be able to respond quickly enough to the intense competitive environment.

Though Olympic Airways has some strong advantages, like extensive network and the home country geographical position, the evidence suggests that the carrier did not exploit these advantages by offering a customer oriented service. Nor did the carrier adopt a competitor orientation. In addition, the lack of inter-functional co-ordination failed to allow the carrier to implement a well designed customer orientation plan. The lack of management continuity and the interference of government and unions also restricted the strategies adopted by Olympic Airways.

The evidence suggests that Olympic Airways did not consistently implement a market orientation during the 1990-2001 period. During 1994-1996 and from 1998 onwards there were some market orientation strategies adopted but this was not sustained in order to have positive results on the carrier's performance. The market orientation implemented by Olympic Airways was more part of the two restructuring plans and less about a clear strategy formulated and implemented by the carrier in order to improve its performance. Although, the two restructuring plans (in 1994 and 1998) focused more on the carrier's cost minimisation, as has been mentioned in other parts of the study, Olympic Airways improved its product more as a response to the increased competition and less as a part on a well designed and sustained market orientation strategy.

Therefore, having examined the market orientation adopted by Olympic Airways in the 1990-2001 period, as far as the second research question is concerned, the lack of market orientation shown by Olympic Airways may, to some extent, explain the carrier's low performance.

6.3 A linkage between Porter's Generic Strategies and Market Orientation Components

The literature review presents that Porter's generic strategies are, in the main, mutually exclusive (Porter, 1980, pp. 41), while the market orientation components, as described by Narver and Slater (1990, pp. 21-22), should always co-exist in order for an efficient market orientation strategy to be adopted.

The theoretical analysis of Porter's generic strategies and the components of market orientation has shown that certain combinations of Porter's generic strategies and the market orientation components present better results. As far the empirical side is concerned, though Olympic Airways did not adopt any clear strategy some discussion regarding this combination and the impact on performance is presented below.

The literature review identifies that the cost leadership strategy requires a detailed knowledge of current, and potential, firm's competitors, and in particular, knowledge of their cost base, their offerings, their strategies, and their strengths and weaknesses and so on, in order for the firm to offer lower cost products (Porter, 1980). This knowledge assists an airline in controlling its costs, to decrease them to lower levels than its competitors and finally to outperform them. In addition, competitors cost innovations can be monitored as well. Thus, an airline involved in reducing costs, aims to offer its service at a lower price than its competitors or offer an improved service whilst keeping prices at similar levels with its rivals. However, offering a better service can lead to costs increasing. In addition, the on going monitoring of customers wants are necessary in order to offer the minimum required service. The issue facing firms in monitoring customers and competitors and responding to the customer requirements is that these tasks can lead to higher costs. Therefore, these firms need to charge higher prices in order to cover these higher costs, which impacts on their ability to attain cost leadership.

Regardless of the strategy adopted, inter-functional co-ordination is required in order to have the support of the whole organisation. Airlines that place great emphasis on the cost minimisation require all functions to co-operate closely, and a lean and flexible organisational structure is also required to support the firm's objectives. Moreover, incentives need to be offered based on meeting strict quantitative targets. These organisations tend to be interested in minimising all costs (marketing and sales, R&D) and place greater emphasis on the operational issues (Porter, 1990, pp. 40). Furthermore, carriers that place more emphasis on cost minimisation use any new method and technological advancements, e.g. internet sales, no catering on board, outsourcing of basic functions, single class of service and so on, in order to further minimise their costs. Easyjet, for example sells about 90-95 per cent of its tickets through the internet, while Olympic Airways mainly employs the traditional distribution method via travel agents and thus spends 7-9 per cent of its gross revenues on agent commissions. The staff productivity of the low cost leaders is higher than the established scheduled carriers. Air Berlin, a low cost carrier, has achieved almost similar revenues with Olympic Airways having 1,600 employees, while Olympic Airways has almost 6,000. Furthermore, these carriers have a simple organisation structure, while the long established scheduled airlines have a far too complicated structure, which makes it difficult for their people to deliver an efficient service (O'Toole, 2002, pp. 39).

Differentiation strategy seems to be related to all market orientation components. Those firms that adopt a differentiation strategy should have strong customer orientation. The on-going detailed knowledge of current and potential customers needs and how these needs can be satisfied are necessary actions for airlines in order to offer an attractive differentiated service. In addition, a detailed competitor assessment will assist airlines to offer a differentiated product. An airline should have a very good idea of what competitors products are, what their products advantages and disadvantages are, their incurred costs, and so on. The

establishment of a competitor intelligence system is a prerequisite in order for an airline to receive continuous competitor information.

Firms that achieve competitive advantage through differentiated products should also have strong co-ordination among functions, mainly their R&D, product development and marketing functions (Porter, 1980, pp. 41). The marketing function has a key role in these firms, whereas the production/operation function is most important for the cost leaders. In addition, these firms offer incentives based on the use of subjective measurement and offer tangible and intangible rewards, instead of quantitative measures. Moreover, amenities to attract highly skilled labour, scientists, or creative people are required for these firms (Porter, 1980, pp. 41). All these are important functions in order to offer a higher quality, differentiated products.

In the airline industry, 'differentiated firms' are interested in offering higher value service to their customers, such as more convenient departures, more rewards for their frequent flyers, better service on-board and on the ground and so on. In order to achieve this, detailed customer and competitor knowledge is necessary, for a firm to know what other airlines are offering and what customers are valuing. Moreover, good inter-functional co-ordination is also required. On the other hand, cost leaders emphasise minimising their costs, offering less convenient seats with less inches and pitches, no catering on-board, flying from secondary airports, which are less convenient for customers and so on.

As far as the theoretical side is concerned, cost leadership strategy seems to require more competitor orientation, a supportive, efficient organisation structure and less customer orientation. On the other hand, a differentiation strategy requires more in-depth knowledge of customers and competitors, as well as good inter-functional co-ordination.

Therefore, the above discussion, which comes from the existing literature and examines the potential relationship between Porter generic strategies and market orientation components, leads firms that adopt one of the two generic strategies suggested by Porter (1980) to place more or less emphasis on the market orientation components. The following figure 6.3.1 presents the combination of Porter generic strategies with the components of market orientation, and the priorities set by those firms that adopt a cost leadership strategy and those that adopt a differentiation strategy, as described above.

		Cost leader	Differentiator
Market Orientation components	Priority 1	Competitor orientation	Customer orientation
	Priority 2	Interfunctional co-ordination	Competitor orientation
	Priority 3	Customer orientation	Interfunctional co-ordination

Figure 6.3.1 A linkage between Porter generic strategies and market orientation components (composed by author)

The empirical examination of the implementation of Porter's generic and market orientation strategies in Olympic Airways during the 1990-2001 period shows that the carrier did not adopt a clear or well planned strategy. Some reasons for the lack of a clear, sustained strategy were the government and union interference and the frequent management changes. In addition, during the years 1990-1994, the absence of international and domestic competition also impacted on Olympic Airways adoption of a clear, effective strategy. The high governmental support during this time also reduced the pressure on efficiency and the strategies adopted by the carrier were also affected by the Gulf war crisis. This bad situation led to the implementation of the first restructuring plan in 1994 (R. 2271/1994). The objective of the restructuring plan was for the carrier to become more competitive, mainly through controlling/cutting its costs. However, this strategy was dictated by external factors and was not developed as an explicit strategy by the carrier. Thus, the cost minimisation was not supported by an in-depth competitor orientation or by an appropriate organisation structure and the

various functions within the carrier were not well co-ordinated to facilitate this effort. This absence of a clear and sustained strategy by the carrier in the mid 1990s affected Olympic Airways market and financial position. This led to the implementation of the second restructuring plan in 1998 (R. 2602/1998). Since 1998, the competition for Olympic Airways had intensified in the international and domestic network. This situation had pressed the carrier to adopt a more market orientated approach, whilst simultaneously placing emphasis on cost reduction, in order to be competitive. However, the prerequisites of the second restructuring plan were not fulfilled (EU Institutions Press Releases, 11/12/2002) and Olympic Airways did not achieve any improvement in its position.

Charles Banfe (1992) stressed that, when operational people are dominant within an airline, the supply is guaranteed, the costs are not necessarily high, but the revenues are low. On the other hand, when commercial people are dominant, the revenues are high, but the operating costs are also higher (pp. 178). Therefore, a balance of power between an organisation's various departments is necessary in order to achieve higher performance. Before 1995 the Olympic Airways General Directors was mainly from the operational side (pilots), however, despite this, no significant improvements have been seen in the operational side of the carrier such as in cost terms, in punctuality etc. Since 1995 more technocrats were appointed which affected the strategy adopted by the carrier, with more emphasis being placed on market orientation in the last few years.

Most of the carrier's customer oriented strategies were adopted reactively following those of international competitors. Since 1998, however, Olympic Airways has been more proactive by adopting a number of pricing innovations, in order to push new domestic entrants out of operation.

Over the last few years, the carrier has also managed to control its labour costs better - mainly overtime – however, its unit costs have remain high.

During the examined period Olympic Airways did not place much systematic emphasis on monitoring the competitors, and did not develop a central competitor intelligence system. Every department held its own information about competitors' strategies and this was not combined to provide a clear picture of competitors.

The organisation structure during the examined period was not supportive of the airline's adopted strategy. The necessary inter-functional co-ordination was not achieved. Many customer oriented strategies suggested by the carrier's Marketing Department were not supported by the staff at an operational level. This has resulted in the carrier's customer oriented strategies being delayed or postponed. The airline's top management rarely contacted front line employees, and other employees and only occasionally circulated newsletters, company's newspapers and so on in order to inform and encourage employees to work harder towards the achievement of the carrier's objectives. However, in the period 1994-1995, top management had started sending regular letters to the staff, informing them what is happening and what the senior management was doing (Doganis interview, 1995, pp. 71). This has resulted in an improvement in the employee morale, however, the management change led to this effort being stopped. A similar policy has been followed in 1999, when a new management team was appointed.

The Olympic Airways subsidiaries Olympic Aviation and Macedonian Airlines had their own board of directors and were operated more autonomously. However, in 2002, the chairman of Olympic Airways was also appointed as a Head of Olympic Aviation and Macedonian Airlines, and this has meant that closer co-operation has now been established between Olympic Airways and its subsidiaries.

The frequent management changes have influenced the consistency of the carrier's objectives because every new management appointment meant a

change of strategy. Furthermore, every category of employees is represented by its union and many management decisions have to first be discussed with them in order to approve or to postpone. The carrier's management has had to deal with 17 or 18 different unions and a strong union federation, when it decides to promote any changes.

The management has also had to deal with a board which has heavy political influence. The government interference, through appointing members of board of directors who are friends of the government and who have tended not to be technocrats or even businessmen, which has resulted in vital decisions for the carrier being delayed for long periods (Doganis interview, 1995, pp. 71).

The current organisational structure, designed by McKinsey & Co., was implemented in 1998. Although it is much better than the previous one, having less managerial levels and being more market oriented, however, the interdepartmental connectedness has still not been achieved. Some suggestions for organisational structure improvements by McKinsey & Co. have not been adopted by the carrier and particular groups of employees still focus on their own benefits (informal discussions). Since 2003 this situation has been slightly improved, but, despite these improvements, the interdepartmental conflict still exists.

Conclusively, due to this lack of a clear strategy by Olympic Airways there is a risk in extracting conclusions about the combinations of Porter's generic and market orientation that enhance performance. However, the findings, linked with the theoretical knowledge presented earlier, do suggest positive links between some of Porter's generic strategies and the components of market orientation.

The theoretical side presents that the Porter generic strategies are related to market orientation components. Particularly, as figure 6.3.1 presents, a cost leadership strategy requires firm's to focus on competitor orientation, to have the appropriate inter-functional co-ordination, as well as some customer orientation, and a differentiation strategy combines better with all the market orientation components.

In terms of the empirical data presented in the present thesis, Olympic Airways has not adopted any clear or sustained strategies during the 1990-2001 period, therefore no clear conclusions can be extracted for the potential combination between Porter generic strategies and market orientation components.

6.4 Moderators of the Relationship between Porter's Generic Strategies and the Market Orientation Concept

The theoretical side of Porter generic strategies and the market orientation concept developed in the literature review presents that there are some environmental conditions that favour the implementation of specific strategies and influence them (Narver and Slater, 1990, pp. 28-32). These conditions will now be assessed in the case of Olympic Airways.

The level of competition within an industry, from other firms or from substitutes, may determine the appropriateness of a specific strategy. Thus, when the competition is fierce a firm should adopt a differentiation strategy in order to differentiate itself from the competitors, offering products/services that competitors cannot offer. Since 1998, Olympic Airways has placed more emphasis on differentiation due to the increased domestic and international competition. Therefore, a liberalised environment that facilitates competition and free entry, as happened from 1998 onwards, and has influenced the strategies adopted by Olympic Airways, leading it to adopt more market oriented strategies,

such as the development of a more advanced FFP, new on-board and on the ground facilities for passengers and so on. On the other hand, protectionism by the governments of their flag carriers, as happened till at the beginning of 1990s in Europe, prevented these airlines adopting a more market oriented approach. This lack of clear strategy led many airlines, including Olympic Airways to become 'stuck in the middle', influencing their financial and market positions.

Technological advancements are used widely and can have a significant impact on the strategies adopted by a carrier. The Internet, electronic ticketing, more modern aeroplanes are some factors that have been used either to cut costs or to differentiate products. For example, the new Airbus A300-600ER and A340-300 aeroplanes acquired by Olympic Airways offer travellers a more market oriented product.

However, external events may also influence the strategies adopted by an airline. For example, the Gulf War crisis affected airlines financial position and their strategies in the early to mid-1990s. During this period, airlines had to focus on cost cutting and much emphasis was placed on labour costs, which were reduced by cutting staff numbers. Thus, British Airways lost 6,400 employees in 1991, Lufthansa cut 1,800 jobs in 1992, and a further 3,100 each year for both 1993 and 1994. In addition, between 1990 and the end of 1994 Iberia lost 18 per cent of its staff, Air Portugal 17 per cent and Olympic Airways 13 per cent. Further cost reductions were made by renegotiating terms and conditions of employment (Doganis, 2001, pp. 116-117). Therefore, in tough times for the industry, airlines tend to place more emphasis on cost reduction strategies and less on market orientation.

Finally, in the case of Olympic Airways, the involvement of authorities, such the European Union, have affected and defined the strategies that have been adopted by the carrier in order to survive, as laid out in the two restructuring plans).

With respect to the final research posed, the strategy of the carrier was impacted by liberalisation, increased competition, new technology, and the influence of external events and authorities. All of these factors appeared to have adversely influenced the performance of Olympic Airways.

Chapter 7

Conclusions

In this chapter the main findings of the study are presented, followed by a description of the limitations of the study. Finally, based on the findings of the study, recommendations are made for future action.

7.1 Main Findings

The research presented in this thesis examines the implementation of Porter's generic strategies and Narver and Slater's market orientation strategies by Olympic Airways, in the period 1990-2001. In addition, the impact of the combination of these two broad groups of strategies was examined as well as the impact of exogenous factors that can affect the implementation of a specific strategy (e.g. the level of liberalisation and competition, the implementation of the new technology, external events and authorities). Furthermore, the study examined the relationship between the two groups of strategies and the airline's performance.

Overall, the study findings suggest that Olympic Airways did not adopt any clear and sustained strategies during the period 1990-2001. The carrier did not plan, nor did it implement any consistent strategy in order to face the changing environment with increased international and domestic competition. This absence of such a strategy has significantly affected the carrier's financial and market position. Specifically, in terms of performance, the carrier presented lower financial performance (significant losses) in the years 1990-1993. The profits of 1994, 1995 and 1998 are mainly explained by the implementation of the two restructuring plans (in 1994 and 1998). In the remaining years, the carrier posted losses. In addition, Olympic Airways lost significant market share particularly

when the international and domestic competition intensified. The reasons for this are now examined.

At the beginning of the 1990s governmental protectionism and the lack of competition led the carrier to follow no clear strategy. Olympic Airways did not consistently follow any clear cost leadership, differentiation or market orientation strategies, leading the carrier to be 'stuck in the middle' with correspondingly poor performance. However, this did not matter because any financial losses were subsidised by the state.

The two restructuring plans (R. 2271/1994 and R. 2602/1998) imposed by the EU pushed the carrier primarily to minimise its costs and by doing so to improve its financial performance. However, the EU also required the carrier to improve its market position, so some differentiation and market orientation strategies were adopted. However, deviations from the terms of the restructuring plans have led the carrier to its current poor financial position.

Governmental and union interference has been the main reason for the lack of any clear and consistent strategy. Moreover, the level of liberalisation and competition as well as the implementation of new technology, external events (political crises, terrorism, etc.) and authorities (EU) decisions have also affected the strategies adopted by the carrier.

Examining a number of cost minimisation and differentiation issues (i.e. labour costs, passenger service costs, training costs etc.), it became apparent that the carrier did not, either intensively or consistently, emphasise these areas in order to minimise its costs or to offer something different. Instead, Olympic Airways forced itself into a 'stuck in the middle' position, which led to lower performance. Conclusively, the carrier did not manage to exploit its main advantage, which is having its base in a country with lower cost than its European counterparts. On the contrary, Olympic Airways has ended up having one of the highest labour costs in Europe.

In terms of a focus strategy, Olympic Airways placed more emphasis on establishing a geographical focus, by focusing on European and domestic routes. The carrier did not focus on business class passengers segment, but instead placed emphasis on low yield passenger traffic.

When examining a number of market orientation issues that are related to the carrier's customer orientation, competitor orientation and inter-functional co-ordination (i.e. customers complaints, Frequent Flyers Programme, punctuality, etc.), it became obvious that the carrier did not place the appropriate level of emphasis on these issues in order to improve its lower performance. In most of the cases, the carrier introduced customer oriented innovations more as a response to what the other airlines have done and less as a response to what the passengers actually needed. The carrier did not monitor and acted after its competitors when any kind of innovations has been introduced. Only one customer satisfaction survey took place during the 1990-2001 period (5th interview). Also, the interdepartmental conflict limited the inter-functional co-ordination of the carrier.

Examining the potential combination between Porter's generic strategies and market orientation components, the literature suggests that a differentiation strategy combines better with all the market orientation components. Thus, a differentiation strategy needs efficient and effective customer orientation, competitor knowledge and inter-functional co-ordination. On the other hand, cost leadership needs efficient competitor knowledge, inter-functional connectedness and some customer knowledge is also necessary. As far as the empirical side is concerned, the absence of a clear and well defined strategy by Olympic Airways led no conclusions to be derived about the possible combination between Porter generic strategies and market orientation components.

The lack of ability to focus consistently on any single clear strategy for any significant time during the examined period shows the inability by the carrier to

strategise, to implement and to support a particular strategy. Despite the fact that the two restructuring plans suggested particular course of action for Olympic Airways, the airline proved unable to implement the suggested strategies, mainly due to its state of ownership and the environment in which it operates. The continuous governmental interference created significant problems, and in particular, the frequent management changes resulted in a lack of consistency in the strategy adopted by the carrier to the extent that this appeared as a total lack of strategy. Also, due to its geographical location, external events such as the crisis in the Gulf have affected Olympic Airways more than the other airlines.

Given the position that Olympic Airways are in at the moment, it has been clear to all that the airline must clarify its objectives, define a strategy that will successfully achieve these objectives, and work to pursue this strategy effectively and consistently. It is clear that Olympic Airways must learn from the lessons given by the low cost/no frills carriers, yet Olympic Airways cannot become one of these due to its established organisational structure, network and airport operations, and non-standardised fleet. This choice of strategy would also not make sense in terms of the customer base that Olympic Airways services. A fact that has also been recognised by other private carriers, who have entered the liberalised Greek market successfully by offering full and enhanced services (such as a two class service and in terms of on board services, light snacks, leather seats etc) to passengers. Olympic Airways could be well placed to compete with these other carriers if it can exploit its lower cost base due to lower staff salaries and the fact that it operates out of country with comparatively lower prices than other European countries. This suggests a cost focused strategy in parallel with a particular focus on the competitive orientation of the Market Orientation concept to ensure that they satisfy the minimum criteria in this market in terms of services offered and also a focus on inter-functional co-ordination in order to reduce costs even further.

7.2 Limitations of the Study and Areas for Further Research

The lack of on-time data for Olympic Airways was the main constraint of this study. Thus, the lack of data for the year 2001 both for Olympic Airways and competitors, meant that inter-airline comparisons could not be undertaken for certain issues.

The study has necessarily focused on the organisational strategies adopted by the carrier. However, there is clearly scope for further research to examine the types of learning (adaptive and generative) within Olympic Airways as described by Slater and Narver (1995).

The present study has focused solely on Olympic Airways, and has, therefore, not included the subsidiaries Olympic Aviation and Macedonian Airlines. Analysis and further comparisons between mother and daughter companies could also be the grounds for further research to better understand what Olympic Airways needs to do into the future. Also, cargo operation is a significant part for every scheduled airline and is not mentioned in the present study.

Further research into the critical role of the trade unions and company culture would add significant value and insight as to how the airline could begin to implement clear and sustained strategies. Also further research needs to be undertaken on how Government intervention can be reduce, particularly focusing on privatisation of the organisation and the recruitment and selection criteria for top management appointments. The fact that the privatisation process has been pending for a long time, coupled with the lack of management consistency has also resulted in the situation where Olympic Airways stands on its own with only minor commercial agreements and no strategic alliances. More research is needed to understand both the political issues relating to the development of appropriate strategic alliances and the how best to manage the relationships with alliance partners.

As an embedded worker within the organisation, a further possible limitation of the research findings is the potential for the researcher to produce biased results. However, the benefits from the level of access to information and the research methods used to reduce this bias are felt to have outweighed the potential limitations of the approach taken.

7.3 Managerial Implications

Examining the implementation of Porter's generic strategies (cost leadership, differentiation and focus) and market orientation strategies (customer orientation, competitor orientation, and inter-functional coordination) within Olympic Airways in the period 1990-2001, useful insights were derived that can assist the carrier to overcome some of its long term problems.

The findings of this study clearly suggest that Olympic Airways is in a really difficult position, facing significant financial losses and losing market share. In addition, the turbulent political and economical environment affects primarily the airline industry, posing additional burden and difficulties to airlines already in distress. If it does not change it will fail, and join the likes of Swissair, Sabena, Balkan Airways etc.

In order to improve, the carrier needs to adopt a single, consistent and sustained strategy. The adopted strategy should be followed and supported by all participants (shareholders, the carrier's management and employees) without deviations. The shareholder-government should not interfere in the carrier's operation. An autonomous management team should be appointed and quick decisions and actions in order to improve the carrier's image must be taken. Employees should understand the position in which the carrier is and work harder towards the achievement of the objectives set by the management.

On the basis that every business organisation has strong and weak points, the corporate strategy principle is to emphasise your strong points and strengthen your weak ones. Olympic Airways should fully take advantage of its home base privilege, being a lower cost country compared to other European countries. By doing so, the carrier could adopt a low cost strategy that would give the airline a competitive advantage that has not been exploited by its management yet.

However, by low cost the author does not mean that it expects Olympic Airways to be a low-cost, no-frills airline, but rather that it should aim to have low costs, whilst still providing a full service, which would allow it to compete effectively on price in the 'full service' market. Thus, the carrier would achieve an important competitive advantage over its rivals: to offer a full service at a lower cost.

This is going to require two things. It is going to require Olympic Airways to reduce its costs, which were too high in the examined period 1990-2001. However, it is also going to require Olympic Airways to improve its service offering, because at present it is not as good as that offered by its 'full-service' competitors. What is important to note, however, is that the suggestion that Olympic Airways should focus on both costs and areas for differentiation is not the same as 'stuck in the middle', as firms who follow a differentiation strategy should not simply forget about their costs. These firms still need to control their costs in order to be competitive. In order to achieve these two aims it is going to be important for Olympic Airways to do a number of things.

Firstly, Olympic Airways needs to make sure that its employees not only understand, but also support the adopted strategy. This will be crucial for the carrier's survival and development of its strategies. This will require significant changes to current practices, which are heavily influenced by Government and the Unions, to the detriment of Olympic Airways financial performance. Thus, governmental and union interference must be stopped immediately. The appointment of managers from the private sector who, given their background,

would feel less pressure from Government and would, therefore, make more objective decisions on the running of the airline, will assist Olympic Airways to overcome some of its long term inefficiencies. In the longer term it is important for Olympic Airways to look to privatise, as this will enable the carrier to operate without any intervention by the Government, and adopt more aggressive market orientation strategies. The contribution of the Unions to the labour-management relations is necessary and they should be made to understand that further intervention, with no signs of understanding or sharing the difficult position that the airline is in, would be disastrous for Olympic Airways. Employees and their representatives should work with management in order to turn the company around. The company culture should also be developed along the lines of the liberalized and highly competitive international and domestic environment. Technocrat managers with industry knowledge should be appointed. Furthermore, the government must be stopped from making frequent changes to the management, as it has been the case during the examined period. The union involvement in new innovations and changes suggested by the carrier's management should be reduced and they should not be allowed to delay the implementation of these changes. Their involvement in management decisions in areas such as fleet planning or internal promotions should also be reduced. In order to achieve this, Olympic Airways needs to have an independent, strong management team who are prepared to separate the roles of all participants – government/shareholder, management, employees. This will require them to make strong, sound business decisions that are followed through, in order more efficient and clear strategies to be adopted.

Inter-functional co-ordination is a key element of an organisations market orientation, as interdepartmental conflict, particularly the lack of communication that this causes during the implementation stages of organisational strategies, is the main cause of the lack of any clear and sustained strategies adopted by Olympic Airways. Tight management control is needed in order to improve inter-functional co-ordination, however this will only be possible if the Government and

unions' intervention is stopped. It also requires a change of current culture. A new one should be established that will be focus mainly on improving the service offering. In order to achieve this, an appropriate reward system should also be established. In addition, clearer processes should be established within the organisation regarding the employee incentives system, position appointments and promotions, etc.

Finally, and most importantly, Olympic Airways is also going to need to obtain additional funding in order to make all the improvements to the service offering that are necessary in order to improve customer satisfaction, which should then lead to improved customer loyalty. These funds are also necessary to reduce the carrier debts, to develop existing and new routes, for fleet modernisation and homogenisation, for IT improvement and so on. The carrier does not have the financial ability to introduce expensive innovations (such as fleet expansion, route expansion, etc.) alone, therefore, additional funds will also need to be invested in the carrier. However, the Greek government does not intend to spend more funds on the survival of Olympic Airways. Therefore, the only possible source of funding is private. By following some of the recommendations laid out below, the carrier would become more attractive for private investors. On the other hand, immediate privatisation of Olympic Airways would assist the restructuring of the carrier.

In terms of improvements to the service offering, Olympic Airways needs to match the increased customer needs. Therefore, the carrier must invest in the improvement of its Frequent Flyer Programme, ICARUS, in upgrading the on-board and on the ground service, in improving punctuality and offering a more customer oriented schedule. However, there is an issue over how to fund these improvements. Outsourcing can used in the carrier's Frequent Flyer Programme, while other issues such as improved punctuality, more customer oriented schedule do not require extra funds, just better management. Therefore, Olympic Airways should start by improving those areas which do not require significant

costs, such as punctuality and schedule improvement, common advertising campaigns with Greek National Tourist Office (GNTO), new Athens International Airport (AIA), etc. At this point it might then be possible to attract further investment to fund the more significant additional improvements.

In order to be competitive in terms of product offering it is necessary to closely monitor competitors and their product offerings. The establishment of a separate department, which collects all the information concerning the carrier's competitors and disseminates this information to the carrier's departments for action, is necessary for this competitive monitoring to be undertaken efficiently and effectively. However, in order for this separate department to add value Olympic Airways must first make significant improvements in its inter-functional co-ordination, as discussed earlier.

Participation in one of the big global alliances is a key requirement for Olympic Airways. A restructured, private Olympic Airways with an improved service offering would find it much easier to enter into one of the big alliances. This participation would benefit the carrier in expanding its presence to more geographical regions. In particular it is necessary for the carrier to serve, through an alliance, destinations within the USA and to Australia, thus exploiting the expatriate traffic. Furthermore, by participating in an alliance, the carrier's revenues would be expected to increase, costs reduce due to synergies, and customer service to be improved, which would all fit with the carriers strategic objectives.

Moreover, Olympic Airways should be geographically focused on those routes that are profitable or feed the rest of the network. Emphasis should be placed on operations to European, Middle Eastern and some African destinations, as well as domestic operations. Furthermore, the current long haul routes (Athens-New York and Athens-Canada) should be retained and a better feeding of these routes should be achieved. This is not to say that the carrier should ignore the

high yield passenger traffic, discussed earlier, but it is important to recognise that competing in this marketplace requires significant service improvement, and, therefore, a significant injection of funds.

Conclusively, the low cost, geographical focus strategy is probably the only strategy available at present that can possibly secure the carrier's survival.

BIBLIOGRAPHY

1. Aegean Airlines, *"Press Releases and Published Time Tables 1999, 2000"*, 2000.
2. Ahmed, Pervaiz K. and Rafiq Mohammed, "Implanting Competitive Strategy: a Contingency Approach" *Journal of Marketing Management*, 1992, 8, pp. 49-57.
3. Air Transport Association (ATA), *Airline Financial News*, "ATA Exhorting Carriers to Hold Down Labor Costs", 2002, pp.1.
4. *Airline Business* magazine, "Alliances – Special Report", July 2002, pp. 42-72.
5. *Airline Business* magazine, "Alliances – Special Report", July 2003, pp. 42-46.
6. *Airline Business* magazine, "Cost Cutting", February 1998, pp. 27-31.
7. *Airline Business* magazine, "Drive to Outsource – Special Report", January 2002, pp. 37-42.
8. *Airline Business* magazine, "Going Global" editorial comment, May 2003, pp. 7.
9. *Airline Business* magazine, "Low Cost Airlines", an editorial article, November 1995, pp. 12.
10. *Airline Business* magazine, "Building for the Future", report by Colin Baker in London, June 2003, pp. 54-55.
11. *Airline Business* magazine, "Fuel for Thought", report by Colin Baker, January 2002, pp. 52-54.
12. *Airline Business* magazine, "Turning the Corner", analysis by Mark Pilling in London, June 2004, pp. 48-56.
13. *Airline Business* magazine, "Where Next for the GDS", report by David Field Washington and Kevin O'Toole in London, March 2004, pp. 34-43.
14. *Airline Business* magazine, "Managing the Cycle", by Brutzel, Christoph and Ingo Williams, December 2000, pp. 78-81.
15. *Airline Executive Magazine*, "Intramar Image Survey", December 2001.

16. Armstrong, J. Scott and Fred Collopy, "Competitor Orientation: Effects of Objectives and Information on Managerial Decisions", *Journal of Marketing Research*, May 1996, Vol. 33, Issue 2, pp. 188.
17. Association of European Airlines (A.E.A.), *Yearbook 1998*, May 1998, pp. 18.
18. Association of European Airlines (A.E.A.), *Yearbook 2002*.
19. Association of European Airlines (A.E.A.), *Yearbook 1995*, pp. 13.
20. Association of European Airlines (A.E.A.), *RB8 1990-2001 data*.
21. Association of European Airlines (AEA), *Punctuality Statistics, RB11, Annual Data 1990-2001*.
22. Athens International Airport (AIA), *Annual Reports 2000-2003*.
23. *Aviation Analyst – Asia Pacific*, "Baggage Mishandling – Cost or Competitive Advantage Opportunity", November/December 2002, Issue 44, pp. 13-15.
24. *Aviation Strategy Analysis*, "Variations on the low cost theme", July 2000, pp. 7-15.
25. *Aviation Strategy*, "Olympic: What can possibly be done?", October 2000, pp. 6.
26. Avmark International Ltd., *Worldwide Aviation Marketing and Management Service*, "Olympic Airways – A new corporate strategy", December 1993.
27. Baldauf, Artur and David W. Cravens, "Improving the Effectiveness of Field Sales Organizations – A European Perspective", *Industrial Marketing Management* 28, 1999, pp. 63-72.
28. Beal, Reginald, M. and Masoud Yasai-Ardekani "Performance Implications of Aligning CEO Functional Experiences with Competitive Strategies", 2000, Vol. 26, No. 4, pp. 733-762.
29. Biemans, Wim, "Designing a Dual Marketing Program", *European Management Journal*, Vol. 19, No. 6, December 2001, pp. 670-677.
30. Boeing, "Current Market Outlook", edition 1998.

31. Boettcher, Roland and Martin K. Welge, "Global Strategies of European Firms", *The International Executive*, March/April 1996, Vol. 38(2), pp. 185-216.
32. Bowler, Peter, "Marketing in a Deregulated Environment", is part of Air Transport Executive Seminar, which took place in Cranfield University, 21st – 25th November 1994, pp. 1-25.
33. Brady, Michael, K. and J. Joseph Cronin, Jr., "Customer Orientation – Effects on Customer Service Perceptions and Outcome Behaviors", *Journal of Service Research*, Sage Publications, Volume 3, No. 3, February 2001, pp. 241-251.
34. Bryman, A. and R. Burgess, "Developments in Qualitative Data Analysis: An Introduction", *Analysing Qualitative Data*, A. Bryman, and R. Burgess, New York, USA, Routledge, 1994.
35. Button, Kenneth, Kingsley Haynes and Roger Stough, "Towards an Efficient European Air Transport System" a study for the Association of European Airlines (AEA), School of Public Policy, George Mason University, November 2002.
36. Campbell, Alexander and Max Kingsley-Jones, "Rebel Skies – Is it all too Easy for the Low-cost Carriers?", *Flight International Magazine* a cover story, London, 9-15 April 2002, pp. 29-39.
37. Cardy, Robert L., "Employees as Customers", *Marketing Management*, Chicago, Sep/Oct 2001, pp. 12-13.
38. Commissions Press Room, 11/12/2002.
39. Dagtoglou, P. D., "Air Transport and the European Union", Second edition, January 1994, pp. 25.
40. Davidson, Steve, "Seizing your Competitive Advantage", *Community Banker*, Washington, August 2001, pp. 32-35.
41. Day, George S., "The Capabilities of Market-Driven Organisations", *Journal of Marketing*, Vol. 58, October 1994, pp. 37-52.
42. de Palacio, L., "Speech to Beyond Open Skies Conference", Chicago, December 1999, Brussels: European Commission.

43. Dempsey, Paul Stephen and Laurence E. Gessel, "Airline Management: Strategies for the 21st Century", 1997, Coast Aire Publications.
44. Dess, G. G. and P. S. Davis, "Porter's Generic Strategies as Determinants of Strategic Group Membership and Organizational Performance", 1984, Vol. 27, No. 3, pp. 467-488.
45. Diamantopoulos Adamantios, Nina Reynolds and Bodo Schlegelmilch, "Pretesting in Questionnaire Design: The Impact of Respondent Characteristics on Error Detection", by Journal of the Market Research Society, 36, 4, 1994, pp. 295-313.
46. DiBenedetto, B., Rayko, R., Mackey, M., and P. Michaud, "Labour Turns on the Heat" by Commercial Aviation Report, the bi-weekly airline finance news magazine, No.211, July 1, 1998, pp. 21-24.
47. Dickson, P.R., "Toward a General Theory of Competitive Rationality", Journal of Marketing, January 1992, pp. 71-83.
48. Doganis, Rigas, "Factors Affecting Airline Costs", is part of Air Transport Executive Seminar, which took place in Cranfield University, 21st –25th November 1994, pp. 1-35.
49. Doganis, Rigas, "The Airport Business", first published 1992 by Routledge, 11 New Fetter Lane, London, EC4P 4EE.
50. Doganis, Rigas, "Flying Off Course: The Economics of International Airlines", 1991, London: Routledge.
51. Doganis, Rigas, "The Airline Business in the 21st Century", first published 2001 by Routledge.
52. Doganis, Rigas, S., "Flying Off Course – The Economics of International Airlines", 1985, George Allen and Unwin, London.
53. Easterby-Smith, M., R. Thorpe and A. Lowe, "Management Research – An Introduction", 1991, Sage Publications.
54. Egelhoff, William G. and Carmela S. Haklisch, "Strategy, size of firm, and the use of technical alliances: An exploratory study", Journal of Engineering and Technology Management, 1994, Vol. 11, pp. 117-148.

55. Finch, J., "Research and Policy: The Uses of Qualitative Methods in Social and Educational Research", 1986, The Falmer Press, London.
56. Flint, Perry, "Measuring carrier cost competitiveness" article in *Air Transport World*, 2/98, pp. 59-62, is part of "Winning Airlines: Productivity and Cost Competitiveness of the World's Major Airlines", by Tae Oum, 1998, Kluwer Academic Publishers.
57. Fragoudakis-Romeos, Alex., "Proposing a Methodology for Evaluating the Operational Performance of Smaller National Airlines – a case study of Olympic Airways", unpublished Ph.D. Thesis, 1991.
58. Greek Civil Aviation Authority, 1990 and 1995 data.
59. Greenley, G.E., "Market Orientation and Company Performance: Empirical Evidence from UK Companies", *British Journal of Management*, Vol. 6, 1994, pp. 1-13.
60. Greenley, G.E., "Forms of Market Orientation in UK Companies", *Journal of Management Studies*, January 1995, 32:1.
61. Greenley, G. E., "Strategic Management", New York; London: Prentice Hall, 1989.
62. Hamel, Jacques with Stephane Dufour, Dominic Fortin, "Case Study Methods", Volume 32, 1993.
63. Harvard Business Review, "Competing on Customer Service: An Interview with British Airways' Sir Colin Marshall", November-December 1995, pp. 101-145.
64. Harvard Business Review (H.B.R.) Anonymous author, "The Connection with Generic Strategies", ISSN: 0017- 8012, Vol.: 74, Nov-Dec 1996, pp. 67.
65. Hauc, Anton and Jure Kovac, "Project Management in Strategy Implementation – Experiences in Slovenia", *International Journal of Project Management*, 18, 2000, pp. 61-67.
66. Hooley, Graham J. and James E. Lynch, "The Effectiveness of British Marketing", is part of "The Marketing Initiative", Economic and Social

Research Council, *Studies into British Marketing*, edited by John Saunders, Prentice Hall.

67. Hurley, Robert F., Hult, G. and M. Tomas, "Innovation, market orientation, and organisational learning: an integration and empirical examination", *Journal of Marketing*, July 1998, Vol. 62, Issue 3, pp. 42.
68. Hyatt, Laura, "A simple Guide to Strategy", *Nursing Homes*, Cleveland, January 2001, pp. 12-13.
69. International Air Transport Association (IATA), *Transatlantic Air Passenger Survey (T.A.P.S.) – Oct-Dec 1996*.
70. International Air Transport Association (IATA), *World Air Transport Statistics (WATS)*, 46th Edition, published 2002.
71. International Air Transport Association (IATA), *Aviation Training and Development Institute report*, March 2002, pp.1.
72. International Air Transport Association (IATA), "Airline Marketing Course", *Airline Training Services, Marketing & Sales*, Geneva, 16-20 September 1996, pp. 1-30.
73. International Air Transport Association (IATA), *World Air Transport Statistics (WATS)*, 47th Edition, published 2003.
74. International Civil Aviation Organisation (ICAO), *Yearbook 2002*.
75. J. P. Morgan Securities, "The US Airline Industry", 1993, pp. 22.
76. Jankowicz, A. D., "Business Research Projects", London, UK, Second Edition, 1995, Chapman and Hall.
77. Jankowicz, A. D., "Business Research Projects for Students", Chapman and Hall, First edition 1991, Reprinted 1992, 1993.
78. Jaworski, Bernard J. and Ajay K. Kohli, "Market Orientation: Antecedents and Consequences", *Journal of Marketing*, Vol.57, July 1993, pp. 53-70.
79. Johnson, Jr. and H. Julius, "An empirical analysis of the integration – responsiveness framework: U.S. construction equipment...", *Journal of International Business Studies*, Vol. 26, Issue 3, 1995, pp. 621.
80. Johnson, K. and H. Scholes, "Differentiation strategies", *Journal of International Business Studies*, Vol. 27, Issue 3, 1995, pp. 200-285.

81. Kenagy, John W., Sheila M. McCarthy, David W. Young, Diana Barrett and Diane C. Pinakiewicz, Association of Professors of Medicine, "Toward a Value-Based Health Care System" *The American Journal of Medicine*, Vol. 110, February 1, 2001, pp. 158-163.
82. Kirk, J. and Miller, M., 1986, *Reliability and Validity in Qualitative Research*, Sage, London.
83. Kling, J.A. and K.A. Smith, "Identifying Strategic Groups in the U.S. Airline Industry: An Application of the Porter Model", *Transportation Journal*, Winter 1995, pp. 26-34.
84. Kohli, Ajay K. and Bernard J. Jaworski, "Market Orientation: The Construct, Research Propositions, and Managerial Implications", *Journal of Marketing*, Vol. 54, April 1990, pp. 1-18.
85. Konigstein, Manfred and Wieland Muller, "Why Firms Should Care for Customers", *Economics Letters*, 72, 2001, pp. 47-52.
86. Kotler, Philip, "From Sales Obsession to Marketing Effectiveness", *Harvard Business Review*, 1977, pp. 67-75.
87. Lengnick-Hall, Cynthia A., "Customer Contributions to Quality: A Different View of the Customer-oriented Firm", *Academy of Management Review*, 1996, Vol. 21, No. 3, pp. 791-824.
88. Liao, Ziqi and Paul F. Greenfield, "The Impact of Generic Competitive Strategies on Corporate R&D: an Empirical Study in Japan", *International Journal of Technology Management*, Vol. 13, Nos 5/6, 1997, pp. 500-550.
89. Liu, Hong, "Market orientation and firm size: an empirical examination in UK firms", *European Journal of Marketing*, Vol. 29, No. 1, 1995, pp. 57-71.
90. Lobbenberg, A., (1994) "International Regulation, Deregulation and Liberalisation", part of the Air Transport Executive Seminar, which took place in Cranfield University, 21st -25th November 1994.
91. Lovegrove, Keith, (2000) "Airline Identity, Design and Culture", Laurence King Publishing.

92. Madey, D.L. "Some Benefits and Costs of Integrating Qualitative and Quantitative Methods in Program Evaluation", Durham, 1978, NC: NTS Research Corp.
93. Mathur, S.S., "Talking Straight about Competitive Strategy", *Journal of Marketing Management*, 1992, 8, pp. 199-217.
94. McKee, D.O., P.R. Varadarajan and W.M. Pride, "Strategic Adaptability and Firm Performance: A Market-Contingent Perspective", *Journal of Marketing*, vol. 53, July 1989, pp. 21-35.
95. Menguc, Bulent, "The Influence of the Market Orientation of the Firm on Sales Force Behavior and Attitudes: Further Empirical Results", *International Journal of Research in Marketing*, 13, 1996, pp. 277-291.
96. Michalski, W., Andrieu, M., and B. Stevens, "New Policy Approaches to International Air Transport: Main Issues and Summary of the Discussion", is a part of *International Air Transport: The Challenges Ahead*, 1993, Paris, OECD.
97. Miles, M. and A. M. Huberman, "Qualitative Data Analysis, An Expanded Sourcebook", Second Edition, 1994a, Sage, London.
98. Morris, Peter, "Air Travel Challenges – Airline Trends", IATA Economist Conference Airlines & Airports, Athens, September 2002.
99. Moss, L. and Goldstein, H. (eds.), "The Recall Method in Social Surveys", London, University of London, 1979, Institute of Education.
100. Narver John C. and Stanley F. Slater, "The Effect of a Market Orientation on Business Profitability", *Journal of Marketing*, October 1990, pp. 1-55.
101. Noble, Charles, H., "Building the Strategy Implementation Network", *Business Horizons*, November-December, 1999, pp. 19-28.
102. OAG, *World Airways Guide*, Summer 1990, 1995 and 2001 Timetables.
103. Olympic Airways, "OA Outline Business Plan (1998-2002)", Revised version June 25, 1998.
104. Olympic Airways, Customer Services Sub-division, annual reports 1996, 2000 and 2001.
105. Olympic Airways, Financial Department, 1990-2001 data.

106. Olympic Airways, Frequent Flyers Program (ICARUS) Sub-division, Annual reports 1990-2001.
107. Olympic Airways, Network Analysis Sub-division, 1990-2001 data.
108. Olympic Airways, Public Relations Division, 1990-2001 data.
109. Olympic Airways, Telephone Reservations Sub-Division, Annual Reports 1995, 1997.
110. Olympic Airways, Training Centre Division, Annual reports 1999 and 2000.
111. O'Shaughnessy, J., "Competitive Marketing: A Strategic Approach", 1995, pp. 48-49.
112. Parlett, M., and Hamilton, D., "Evaluation as Illumination: A New Approach to the Study of Innovative Programmes", in G. Glass (Ed.), *Evaluation Studies Review Annual*, 1, 1976, pp. 140-157.
113. Patton, M.Q., "Qualitative Evaluation and Research Methods", 1990, Sage, London.
114. Pettigrew, A. and R. Whipp, "Managing Change for Competitive Success", 1991, pp. 103.
115. Petzinger, Thomas, "Hard Landing", New York 1997, pp. 137-138.
116. Pitelis, Christos and Stuart Taylor, "From Generic Strategies to Value for Money in Hypercompetitive Environments", *Journal of General Management*, Vol. 21, No. 4, Summer 1996, pp. 12-55.
117. Pompeo, Lucio in *Aviation Strategy*, "The cross-functional airline challenge", July/August 2001.
118. Porter, Michael E., "Competitive Strategy, Techniques for Analysing Industries and Competitors", The Free Press, 1980, pp. 34-44.
119. Porter, Michael, "What is Strategy?", *Harvard Business Review*, January-February 1997, pp. 1-22.
120. Rajan, Amin, *Professional Manager*, various articles, March 2002, Volume 11, Issue 2, pp. 9, 33.
121. Regout, Patrick, *Management Today*, various articles, March 2002, pp. 12, 20 and 78.

122. Samiee, S. and K. Roth, "The Influence of Global Marketing Standardization on Performance", *Journal of Marketing*, Vol.56 (April 1992), pp. 6.
123. Samli, A. Coskun and Laurence Jacobs, "Achieving Congruence between Macro and Micro Generic Strategies: A Framework to Create International Competitive Advantage", *Journal of Macromarketing*, 1995, Vol. 15, part 2, pp. 23-32.
124. Schul, Patrick, L., Peter S. Davis and Michael D. Hartline, "Strategic Adaptation to Extended Rivalry Effects on Organizational Performance", *Journal of Business Research*, 33, 1995, pp. 129-142.
125. Shapiro, Benson P., "What the hell is 'market oriented'?", *Harvard Business Review*, November-December 1988, pp. 119-125.
126. Shipman, M., "The Limitations of Social Research", 1988, Longman, London.
127. Siguaw, Judy A., Gene Brown and Robert E. Widing, "The Influence of the Market Orientation of the Firm on Sales Force Behavior and Attitudes", II, *Journal of Marketing Research*, Vol. XXXI, February 1994, pp. 106-116.
128. Slater, Stanley F. and John C. Narver, "Does Competitive Environment Moderate the Market Orientation - Performance Relationship?", *Journal of Marketing*, Vol. 58, January 1994, pp. 46-55.
129. Slater, Stanley F. and John C. Narver, "Market Orientation and the Learning Organization", *Journal of Marketing*, Vol. 59, July 1995, pp. 63-74.
130. Stake, R.E., "The Art Of Case Study Research", Sage Publications, Inc, 1995.
131. Stake, R.E., "Case Studies", an Essay for Denzin and Lincoln, 1994.
132. Strauss, A. and J. Corbin, "Basics of Qualitative Research", Newbury Park, California, USA, SAGE Publications, 1990.
133. Sudman, S.R. and N. M. Bradburn, "Asking Questions", 1982, Jossey-Bass Publishers.
134. The Wall Street Journal, "New uniforms for flight attendants", April 25th, 2004, pp. 11.

135. Thompson, Arthur A., and A. J. Strickland III, "Strategic Management: Concepts and Cases", 5th ed., Boston: BPI-Irwin, 1990, pp. 220.
136. Thompson, Harvey, Special Focus: "What Do your Customers Really Want?", *Journal of Business Strategy*, July/August 1998, pp. 17-21.
137. Turner, I. "Management Update - Strategy and Organisation", *Journal of General Management*, Vol. 14, No. 3, Spring 1989, pp. 1-25.
138. Voss, Glenn B. and Zannie G. Voss, "Strategic Orientation and Firm Performance in an Artistic Environment", *Journal of Marketing*, 64, January 2000, pp. 67-83.
139. Weiser, Charles R., "Championing the Customer", *Harvard Business Review*, November-December 1995, pp.113-116.
140. Winzar, H. F., "Product Classifications and Marketing Strategy", *Journal of Marketing Management*, 1992, 8, pp. 259-268.
141. Wong, Veronica, John Saunders and Peter Doyle, "Examining Generic Marketing Strategies and Organisations of Successful International Competitors", is part of "The Marketing Initiative", Economic and Social Research Council, *Studies into British Marketing*, edited by John Saunders, Prentice Hall.
142. Yin, R.K., (1984) "Case Study Research - Design and Methods", *Applied Social Research Methods Series*, Volume 5, Sage Publications, Beverly Hills, London, New Delhi.

Appendix A

Informal Interviews

After processing the quantitative information, a number of informal interviews were held in order to gain qualitative information and explain the results reflected in the data. The interviews are described as 'informal' because, depending on each case, a number of questions were asked to each individual who was in charge of the relative Department in Olympic Airways.

1st Interview (Pilot Interview)

Name of interviewee: Tina Kalogria

Position: Manager, Customer Services Sub-division

Time in this position: since 1997

Date of interview: April 6th, 2003

Questions:

- 1) Did your Sub-division monitor in detail customer complaints in the period 1990-2001?
- 2) You hold information concerning complaints/claims for the years 1996, 2000 and 2001. Are these complaints representative of the rest of the examined years?
- 3) Did management consider these complaints on an ongoing basis in order to improve the services offered?
- 4) What are the procedures following the collection of customer complaints?
- 5) How do you co-operate with other departments so that they improve the services offered?
- 6) What improvements would you suggest to improve monitoring and solving customers' complaints?

- 7) Do you study in detail how your competitors monitor their customer complaints, that is how many complaints they receive and how they adjust their offerings accordingly?
- 8) What were the main causes of Olympic Airways customer complaints and baggage claims?
- 9) Which complaints cost more to the carrier?
- 10) Do you believe that the number of customer complaints you receive will decrease?
- 11) What are the procedures you follow when a passenger loses his/her baggage? What improvements do you suggest?
- 12) What is the main impact of the new Athens International Airport (AIA) on services offered by Olympic Airways?

2nd Interview

Name of interviewee: Thalia Dardoufa

Position: Manager, Olympic Airways, Frequent Flyers Programme (ICARUS)

Sub-division

Time in this position: since 1997

Date of interview: May 10th, 2003

Questions:

- 1) What were Olympic Airways' loyalty schemes in the period 1990-2001?
- 2) What are the main differences between the old scheme of Special Courtesy Cards and the current Frequent Flyer Programme?
- 3) Did top management place the appropriate level of emphasis on the development of the carrier's Frequent Flyer Programme?
- 4) How many members did the old scheme have and how many are there in the current loyalty scheme?
- 5) What are the main customer complaints regarding the carrier's Frequent Flyer Programme?

- 6) What are the main differences (strengths/weaknesses) of Olympic Airways Frequent Flyer Programme compared to the other airlines similar schemes?
- 7) Is your Frequent Flyer Programme (current and old one) supported by the carrier's other functions?
- 8) What improvements need to be made to the current Frequent Flyer Programme?
- 9) What lead Olympic Airways to develop the current Frequent Flyer Programme?

3rd Interview

Name of interviewee: John Sakellion

Position: Director, Olympic Airways Scheduling Department

Time in this position: since 1997

Date of interview: June 11th, 2003

Questions:

- 1) What is the main philosophy of Olympic Airways scheduling programme?
- 2) Which are the main constraints for Olympic Airways scheduling?
- 3) Do you monitor competitors' schedules and adjust your schedule accordingly?
- 4) Why has Olympic Airways not improved its schedule, in order to offer more attractive departure times to business travellers?
- 5) Are there any prospects of improving the carrier's current schedule?
- 6) What was the role of Olympic Airways subsidiaries, Olympic Aviation and Macedonian Airlines, regarding the mother airline's schedule?
- 7) Does Olympic Airways scheduling have the support of the carrier's other departments?
- 8) What is the role of alliances in Olympic Airways scheduling?

4th Interview

Name of interviewee: Konstantinos Siappas

Position: Director, Pricing Policy Division

Time of holding this position: since 1997

Date of interview: June 1st, 2003

Questions:

- 1) What has been Olympic Airways main pricing strategy in the period 1990-2001?
- 2) What were the implications of liberalization in Europe on Olympic Airways pricing strategy?
- 3) Has Olympic Airways closely monitored its competitors' pricing strategies?
- 4) Has Olympic Airways adopted a reactive or pro-active role against its competitors, as far as pricing innovations are concerned?
- 5) What were the main pricing innovations that Olympic Airways adopted before and after the competitors' moves?
- 6) Why has Olympic Airways adopted a more aggressive pricing strategy against its Greek rivals?
- 7) Does the Pricing Policy Department co-operate with the other Olympic Airways Departments, such as Scheduling, Product Management, Reservations and so on, when a pricing innovation is introduced?
- 8) Which are the major constraints that Olympic Airways faces in order to adopt pricing innovations?

5th Interview

Name of interviewee: Tonia Apostolidou

Position: Director, Product Management Division

Time of holding this position: since 1997

Date of interview: June 5th, 2003

Questions:

- 1) What were the main product innovations that Olympic Airways offered to its customers, during the 1990-2001 period?
- 2) When were these innovations introduced and why?
- 3) Does your Division monitor in detail Olympic Airways competitors' product innovations?
- 4) Has Olympic Airways adopted product innovations before or after its competitors?
- 5) Which product innovations were adopted by Olympic Airways before its competitors and in which cases did Olympic Airways imitate its competitors?
- 6) Does your Department co-operate efficiently with the carrier's other departments when product innovations are introduced?
- 7) Do product innovation proposals have the support of the carrier's other departments?
- 8) What are the main constraints when your Department plans to introduce product innovations?
- 9) How, when and for what purpose did you try to improve the on-board service offering?

6th Interview

Name of interviewee: Sophia Tsihli

Position: Manager, MIS Division

Time of holding this position: since 1997

Date of interview: June 9th, 2003

Questions

- 1) When was the MIS firstly introduced?
- 2) What was the main source for management information at Olympic Airways before the MIS?
- 3) What is the MIS role within Olympic Airways?
- 4) What are the sources of the information included in the MIS?
- 5) How many users have access and use the carrier's MIS?
- 6) What are the main areas that the MIS provides information in?
- 7) What are the main constraints for the further development of the MIS?
- 8) Has the carrier's management invested in further development of the MIS?
- 9) Are top management decisions based on the information provided by the MIS?
- 10) Does the MIS include information and data from the carrier's competitors and, if so, what kind?

Appendix B

Definitions of common air transport terms which are used in the thesis

Aircraft kilometres are the distances flown by aircraft. An aircraft's total flying is obtained by multiplying the number of flights performed on each flight stage by the stage distance.

Available seat-kilometres (ASKs) are obtained by multiplying the number of seats available for sale on each flight stage by flight stage distance.

Break-even load factor (per cent) is the load factor required to equate total traffic revenue with operating costs.

Code sharing is when two or more airlines use their own flight codes or a common code on a flight operated by one of them.

Available tonne-kilometres (ATKs) are obtained by multiplying the number of tonnes of capacity available for carriage of passengers and cargo on each sector of a flight by the stage distance.

Passenger-kilometres or Revenue passenger-kilometres (RPKs) are obtained by multiplying the number of fare paying passengers on each flight stage by flight stage distance. They are a measure of an airline's passenger traffic.

Operating costs per ATK is a measure obtained by dividing total operating costs by total ATKs. Operating costs excludes interest payments, taxes and extraordinary items. They can also be measured per RTK.

Passenger load factor (per cent) is passenger-kilometres (RPKs) expressed as a percentage of available seat kilometres (ASKs) (on a single sector, this is simplified to the number of passengers carried as a percentage of seats available for sale).

Seat pitch is the standard way of measuring seat density on an aircraft. It is the distance between the back of one seat and the same point on the back of the seat in front.

Scheduled passenger yields is the average revenue per passenger kilometre and is obtained by dividing the total passenger revenue by the total passenger kilometres. This can be done by flight route or for the network.

Slot at an airport is the right to operate one take-off or landing at that airport within a fixed time period.

Stage or sector distance should be the air route or flying distance between two airports. In practice many airlines use the great circle distance, which is shorter.

Weight load factor measures the proportion of available capacity actually sold. It is the revenue tonne kilometres performed expressed as percentage of available tonne kilometres (also called overall load factor).

Wide-bodied aircraft are civil aircraft which have two passenger aisles (Boeing 767); narrow-bodied aircraft, such as the Airbus A320 have only one aisle.

Scheduled services: Flights scheduled and performed according to a published timetable, or so regular or frequent as to constitute a recognisably systematic series which are open to use by the public; extra flights occasioned by overflow traffic from scheduled flights; and preparatory revenue flights on planned air services. This definition includes, inter alia: part charters, blocked space purchased for charter traffic, inaugural flights, extra sections, special flights operated on rare occasions e.g. special scheduled service to an annual trade fair.

Passenger flights: Relates to operations of aircraft where capacity is available for passenger, freight and mail.

Passengers carried: The number of revenue passengers carried (i.e. a passenger for whom the carriers receives commercial remuneration) should be obtained by counting each passenger on a particular flight (one that has the same flight number throughout the journey of the passenger) only once and not at each individual stage of that flight, with the single exception that a passenger flying on both the international and domestic stages of the same flight should be counted as both a domestic and an international passenger. Non-revenue passengers should be excluded.

Operating revenues: Passenger, freight, mail, excess baggage and associated revenues earned from international and domestic scheduled operations. Excludes revenues earned on charter operations, from services to third parties and non-air transport activities.

Operating expenses: Direct and indirect expenses chargeable to international and domestic scheduled services. Excludes costs incurred on charter operations, services to third parties, non-air transport activities.

Operating result: Profit or loss attributable to international and domestic operations, which is quoted before and after net interest charges.

Unit cost is the ratio of the combination of input quantities and prices paid for them per unit of production; unit costs are usually calculated on the basis of tonne-kilometres/miles produced (ATKs or ATMs), or seat-kilometres/miles offered (ASKs or ASMs), but also tonne-kilometres/miles (RTKs or RTMs) or passenger kilometres/miles carried (RPKs or RPMs) depending on the purpose of use. Unit costs have often been used as a measure of efficiency in inter-airline comparisons.

Billing and Settlement Plan (BSP) is a centralized system which considerably simplifies the selling, reporting and remitting procedures of accredited IATA Passenger Sales Agents for a specific country or group of countries, thereby improving service standards and producing significant cost savings. To broaden the customer base of the BSPs, participation by other travel industry service suppliers, such as car rental companies, railways and shipping lines is being encouraged and some BSPs already provide this type of service. The BSPs use the services of electronic data processing (EDP) centres to compute billings and monetary amounts to be remitted by the travel agents to a clearing bank, and the division of these amounts for settlement among the airlines.

Miscellaneous Charges Order (MCO) A document issued by a carrier, or its agents, requesting issue of an appropriate passenger ticket and baggage check or provision of services to the person named in the MCO. This covers such services as air or surface transportation, excess baggage charges, baggage shipped as cargo, land arrangements for inclusive tours, car hire, superior air or

surface accommodations, extra fares, additional collections in connection with upgradings or under collections, taxes, deposits, down payments, sundry charges as provided in IATA Res. 727a, refundable balances, hotel accommodations, as well as collection for a prepaid ticket advice (PTA) as provided in IATA Res. 731.

Association of European Airlines (AEA) traces its history back to 1952, when the Presidents of Air France, KLM, and Swissair formed a joint study group, which was expanded shortly afterwards with the addition of BEA (a forerunner of British Airways) and SAS. The AEA, in general, serves the common interests of the member of Association and members of AEA, in 2004, are: Adria Airways, Aer Lingus, Air France, Air Malta, Alitalia, Austrian, British Airways, bmi, Cargolux, Croatia Airlines, Czech Airlines, Cyprus Airways, Finnair, Iberia, Icelandair, Virgin Atlantic, Jat Airways, KLM, LOT Polish Airlines, Deutsche Lufthansa AG, Luxair, Malev Hungarian Airlines, Meridiana, Olympic Airlines, SAS, SN Brussels Airlines, Spanair, Swiss International Air Lines Ltd, TAP Air Portugal, TAROM – Romanian Air Transport, Turkish Airlines.

Sources of information for the terms in this Appendix:

- 1) International Air Transport Association (IATA), World Air Transport Statistics (WATS), 47th Edition, published 2003.
- 2) Doganis, Rigas, "The Airline Business in the 21st Century", first published 2001 by Routledge.
- 3) Fragoudakis-Romeos, Alex., "Proposing a Methodology for Evaluating the Operational Performance of Smaller National Airlines – a case study of Olympic Airways", unpublished Ph.D. Thesis, 1991.
- 4) AEA web site (www.aea.be).