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"Management in the national airlines: a step back in time to the Alitalia case"

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Introduction

This thesis aims to discuss about management, difficulties and changes that have affected the civil aviation industry. The analysis of the management of the airlines starts from a historical analysis, ending with the current challenges that the civil aviation industry has to face, with specific focus on the situation of Alitalia and on the Italian aeronautical scenario. After reading of this thesis is possible to understand what were the difficulties faced by the airlines that have operated on this market, what are today's difficulties of this sector and how evolutions have led airlines companies to find new strategies for defend against the tough competition. The difficulties in the management of these airlines will be discussed by examining historical, political and economic aspects that have led to a radical change in the habits of both airlines and passengers, who have been able to verify a change in their habits thanks to evolutions occurred in the aeronautical sector, market that, as you can already guess, is really dynamic.

The discussion will begin by arguing in the first chapter the birth of Italian civil aviation, highlighting immediately the governmental interest that was had in that historical context regarding the civil aviation market. After the historical point of view we will find a brief discussion about the evolution of aviation business models before moving on to the next chapter, where it is possible to read about an in-depth analysis of Alitalia's history, discussing how the Italian flag carrier was managed throughout its history, arguing then about today's economic challenges and its relationship with the unions. Dwelling on the Italian scenario, is possible to find in the third chapter a discussion of the challenges encountered by Alitalia and other airline companies operating in the Italian market. The chapter will end with a comparative analysis of some of the Italian airline companies still operating in the area. The discussion of the thesis concludes with the fourth chapter in which we will find a discussion about the evolution of the entire civil aviation market, focusing on the M&A strategies increasingly adopted by the players operating on this market.

Chapter 1

The Italian civil aviation: from the history of public participation to the current business models

The first chapter of this thesis aims to bring the reader to a greater understanding of the evolution of the Italian aeronautical industry. The text begins with a study of the birth of civil aviation; it will in fact be noted that the appearance of this economic sector is mainly due to military reasons. The reading will continue by pointing out that both world wars have played a leading role, or rather as an antagonist, in the aeronautical industry in Italy. In this chapter, we will note all the efforts made by the Italian Government to support the economic sector of aviation and the ministerial bodies set up for the purpose of public participation in companies operating in this sector. The Italian Government has believed in the validity of this market, so much so that the efforts over the years have been constant to align it with the standards of other European governments, implementing policies aimed at increasing the efficiency of aviation in order to try to steal substantial market shares to foreign competitors. In the second paragraph, we will go instead to learn about the policies underlying the birth of economic liberalizations in the aircraft market, which entered into force in 1997. We will analyze the historical phases that have led Europe and, therefore, even Italy, to have to change their point of view about government policies for the aeronautical industry. We will understand how the American Government has influenced competition on our continent and we will conclude this discussion, briefly reporting the benefits brought about, in terms of competition, by these new policies. After that, the history of the aeronautical industry in Italy will be set aside for a while, to give a room for the definition of State-owned enterprises, with the analysis of their pros and cons. In this regard we will analyze the reasons behind the born of IRI, during fascist government; then will follow a brief look to the maneuvers implemented by the State about Alfa Romeo Company. After this brief parenthesis, we can find in this chapter a brief study of the Government body that is currently responsible for aviation management on the national territory, namely ENAC. We will analyze its constitution and how to appoint its bodies according to the law. Subsequently, the roles and functions of ENAC will be understood, describing its main business areas and analyzing the company mission. At the end of this chapter we will be confronted with the understanding of the extent of transformations to

which the aviation industry had to copy with. In this regard, we will analyze the main business models adopted by the airlines with the aim of understanding which strategic moves these companies have had to implement to struggle between the competitors and try to respond to the economic and political changes imposed by the evolution of the market.

1.1 The birth of Italian civil aviation

It is difficult to give an official emergence date for the civil aviation, as we know it today. This industry, nowadays crucial for most of lifestyles, owes its birth to the military aeronautics. In Italy the date of birth of the military air force coincide with the time when the then War Minister sent a circular letter to communicate the creation of an aerostatic department in Rome, which is the 6 November 1884 (Ferrari, 2004). Thereafter, to a model by other Countries, few brave car companies begin to manufacture aircraft engines in order to differentiate their production and starting to invest in a new profitable market.¹ Nevertheless, after few years of experimentations, for most companies and for the Minister the results of these investments turned out to be unsatisfactory. The first movers who decide to invest in this market probably got ahead of themselves; in fact, they tried to copy with this market with recklessness and lack of preparation. This new industry called for expensive researches and experimentations giving back low profit margins.²

The Italian air force triggers a high aircraft demands in order to face with the entrance in the First World War. Nonetheless, when the WWI ended, the aircraft industry starts to record a predictable drop in demand. Here, the only key for companies, in order to try to get out from a forthcoming distress, might have been a company restructuring. The most plausible crossroad for these reconversions was represented by the *airplane*. In contrast to other military products, which have sustained Italian economics during the WWI such as cannons and airships, the airplane represents the most dynamic product that better than others has a forward looking over the years, adaptable to several field such as communication, transportation and shipments.³

¹ As reported by P. Ferrari 2004, 15 the Italian pioneer in the aircraft market was *Società ligure piemontese automobili di Torino*, also known as *Spa*.

² Again thanks to P. Ferrari 2004, 42 is possible to note that one of the first person to state his disapproval was the General Giulio Douhet who highlights the difficulties in train experts and the fact that several investors thought aircraft as an easy industry with high potential revenues.

³ An interesting note can be found in the abovementioned book of Ferrari, in the chapter "La realtà di un mito: l'industria aeronautica durante il fascismo" of F. Minniti p.43. Here Minniti writes that the aircraft industry has always been a market correlated to the economic development especially due to the communication field. The

Within this framework became clear that the efforts of the investors alone wouldn't have been enough. The Government should have started to make its presence felt, in terms of economic and institutional support. If on one hand the industry needs to be free from any political influence, on the other hand the help of the Governments results vital for the companies that operate in the aircraft industry since the Minister gives them both financial sustain and managerial governance (Felice, 2010). These were the main reasons that push the Government to invest in public sectors after the First World War. The State intervention was aimed to the safeguard of those companies able to reconvert and to make as easy as possible the exit from the industry for the others. Put it differently, the Government cares about the increasing of the demand. In fact, the way to produce has changed radically; the production rate was given by the governmental requests. The State starts to commission a few projects at a time. Through the use of a concourse the State became able to recognize those companies with requirements in line with those asked by the production. This was a tool used by the Government to test the responsiveness and the qualitative production standards of the companies operate in the aircraft industry, and to select one or few companies able to meet the goal of the commission, hence avoiding costly production wastes not affordable for many of the companies present in the Italian market. Thereafter, the winner of this concourse should have presented a first project and after that the building of a prototype, at expenses of the Government.⁴

After the First World War the Italian Government has taken over lots of efforts in order to support the high cost of the aircraft industry. Thereafter, the course of events was able to let meet a suffering industry with the fascist ideals to build a winning army image. The technology and the specialization of the industry became firstly the starting point for an economic upturn and then the basis for the creation of a national superior image.⁵

Nonetheless, the desire for progress had soon found obstacles in its paths. The first obstacle was represented by the high bargaining power of the patent holders.⁶ The Government copied with this situation by moving away from the policy to select only few companies and widening the possibility to participate at this kind of negotiation to a large number of companies trying to fix the supply-demand relationships. Here the companies differed for a

first usage of an airplane with a purpose different from a military one is due to postal service. During those years, the implementation of a civil transportation market was not feasible because of the huge ticket cost or because of the safety on board was not well-tested. On the other hands also the shipment of goods proved remarkably difficult due to the high weight and the size of the goods.

⁴ Minniti, Fortunato. "La realtà di un mito: l'industria aeronautica durante il fascismo." *L'aeronautica italiana. Una storia del Novecento*. Franco Angeli Storia (2004).

⁵ In the previous mentioned book of Ferrari 2004, 49-50, Minniti introduces the rebound from Mussolini to reconvert Italian economics

⁶ Minniti F, 2004

moment from the ideals of maximizing the efficiency of the products as well as those desired by the ideals of the time. Their priority became now the enlarging of their size so as to increase their bargaining power vis-à-vis the Government; of course the expected result would be obtaining a greater number of orders.⁷

Since the policy of Italian Minister was now moving away from the concourses and selection, Government starts to sharply reduce the numbers of concourses, by distributing them over the years. This kind of policy was just adapted in order to match with the economical needs of the post WWI years.

While, on the one hand, one of the main objectives of the Italian Government was to increase the number of exports, on the other hand it had never set aside the desire to go far beyond the use of airplanes for mere war or postal service purposes. In this respect, the Italian history records its first attempts for the creation of airplane meant for civil purposes and for the transportation of passengers. In 1919 it was decided to increase the lines of passenger transport aircraft through the intervention of a Union. Unfortunately, only two years later the Government and the political forces of the moment were forced to stop this brilliant initiative due to the numerous air accidents registered.⁸ However, if we have to reconnect the birth of civil aviation, it is not wrong to place it historically in the vicinity of these years.

1.1.1 The alignment with European competitors

The Italian aircraft industry results less developed comparing other European countries in terms of civil aviation. Regarding this, the Italian Government took over several efforts in order to align their national situation with respect to the others. First of all, the Minister made faster the creation of aerial maps, achieving lots of ministerial agreements.⁹ In addition the Government supplies to the main airports the basic tool in order to guarantee a correct and safe completion of airport functions.

Finally, after the various political efforts on the part of the Italian Government, the goal of aligning with the civil aviation standards of other European nations succeeded well. For the

⁷ Here Minniti 2004, 53 focuses about the strategies pursued by the companies during those years. They start to think about vertical integration, i.e. the increasing of size buying a target company upstream or downstream in the supply chain; or the horizontal integration which involved the acquisition of a company that operate in a different sector. Nevertheless, the results had differed from the ones expected. This because the financial resources were not well managed by companies; as reported by Minniti, they handle the financial recourses in a not optimistic way, depriving innovation of funds and facing difficulties in the obtaining of the economies of scale. A further issues emphasized by Minniti was the inability of the companies to manage human resources.

⁸ This insights refers to P. Ferrari 2004, 70, specifically to a chapter inside this book named "L'aviazione civile fra le due guerre mondiali" G. Girelli.

⁹ Ferrari and Girelli 2004, 72

sake of the national economy, before the outbreak of the Second World War, Italy reached the fifth position in the world rankings after the USA, Russia, Germany and Great Britain concerning civil aviation.¹⁰

The Italian civil aviation industry could now boast a flag carrier to which the Government intended to entrust aviation services: the *Ala Littoria*, in the 1934. On the other hand, in addition to the Italian State-owned airline company, there was also a private airline, sponsored by Fiat, that is *Aviolinee*.¹¹

However, unlike other companies formed in those years in Europe, *Ala Littoria* was the only purely flag whose market was guaranteed by the monopoly regime of the Italian totalitarian system. The abroad airlines companies were private ones, but, due to the size and market share they served, they could very well compete with the Italian national airline.¹²

It was at this time that the Italian Government took on the task of bridging the gap with the technologies and equipment of European competitors (or trying to fill it). *Ala Littoria* managed to get a grip on the considerable market share of South America, a strategy that brought excellent results to the coffers and to the prestige of the Nation.

Afterwards, the first technical and building constraints began to emerge which in some way marked the economic development of Italian civil aviation, allowing competitors to surpass Italy considerably. For this purpose we are going to analyze shortly the main technical constraints, i.e. the airports. We can enjoy of a clearer picture about the Italian airports' technical constraints thanks to an intervention by Mariano Ranisi.¹³

Ranisi assigns the faults of this underdevelopment of the airport network on the Italian territory to the confused image and to a logistic adaptation to which the construction was certainly not ready. The causes can be identified among the disinterests shown by cultural institutions (universities, publishing) in the building function of the airport. He blames of such institutions to have always look at the airport only in legal and commercial terms, and almost never under the urban aspect of this.¹⁴

¹⁰ Ferrari 2004, 79

¹¹ Here Ferrari and Girelli report in the page 76 few data about air traffic during those years, collected from "Statistiche ufficiali in G. D'Avanzo, *Deregulation*" cit. note 48, p 110. These data depicts the evolution of air transportation in Italy during its expansion phase: in the 1927, the traveled km were 1,330,000; the passengers were 9,757 and the tons of mail were 6.6. The same report recorded also the evident increase in terms of numbers during the 1934, i.e. when *Ala Littoria* was born. The note shows that km became 4,400,400, passengers were now 40,930 and also the mails increased becoming 56.4 tons. Is very interesting to note how in few years the efforts of government policies to revive the civil aviation market have produced largely positive results. In fact km, passengers and mail tons respectively increased about of 30%, 24% and 12%.

¹² As reported by Ferrari and Girelli in pages 76-77 this was the period in which in some European Countries were recorder the born of important airlines such us Lufthansa for Germany, Air France for France and Imperial for Great Britain.

¹³ "Gli aeroporti" of M. Ranisi (p 81-98), in the book of Ferrari, previous mentioned.

¹⁴ Ferrari et Ranisi 2004, 82

To make up for the lack of professional figures involved in construction, it was during this period that shows up a close collaboration never occurred before between engineers, technical department and workers.¹⁵

Close collaborations were obtained in which the engineers studied the most suitable design for the success of civil aviation and the workers put their know-how available to engineers and technical offices, improving at the same time their skill through a higher specialization. From here on we begin to see a new culture, namely that of industrial design.¹⁶

As could be guessed from what has been written so far, civil aviation proved to be a very fragile market sector. This weakness suffered mainly from the critical period that the nation and the world was experiencing, namely that of the World Wars. It was precisely these catastrophic events that led the rhythms of the production of the aeronautical industry. The demand for production underwent significant positive changes when entering the war and drastic declines at the end of it. On the other hand, the Second World War stealthily entered during the phase of the best expression in terms of aviation profits. It should also be specified here that the performance of this industry during the war was not efficient.¹⁷

When the war hostilities ceased, the aeronautical industry had to tentatively try to recover it, even if the situation was certainly not millet. In fact, the demand, as expected, was close to zero and the attacks of the war considerably destroyed a large part of the population, of the plants, thus reducing access and the availability of raw materials.¹⁸

In any case, the Government had the burden to take on this situation in order to create a restructuring plan to allow a new start up of this sector. But the historical and social context was certainly not the best. How well we can guess, the efforts made to reopen our businesses were opposed to a heavy climate dictated by the fall of fascism and the Nazi occupation.¹⁹

¹⁵ This refers to one chapter present in the book of P. Ferrari. The chapter owns to Bassi Alberto and is named "*L'archivio storico Breda e la storia del design aeronautico*", p. 106

¹⁶ As reported by Bassi p. 106 this is where the birth and training of architects can be placed. Furthermore, an additional factor that is often not considered is the impact that different cultures have had on aeronautical design.

¹⁷ Ferrari Massimo wrote a chapter in the book of P. Ferrari, named "*Trasformazioni e ridimensionamento dell'industria aeronautica nel secondo dopoguerra*". Introducing this chapter Ferrari M told us about the critical situation of the aircraft industry during that period. He writes that the aircraft industry was among the most suffering ones during the WWII. As he reports, the production did not stop even when the bombing had exterminated much of the population and buildings. Suddenly this production had to stop. Here Ferrari M. wanted to share with us the strong difficulties present in those years, by citing "Spairani, Fredmano, and Antonio Venier. *Una politica aeronautica per l'Italia: l'industria italiana fra autonomia e collaborazione*. F. Angeli, 1988, p. 28", where we read that production workers had been reduced to a number of 5,000 in the spring of 1945, while only three years earlier there were more than 150,000.

¹⁸ Ferrari M. 2004, 115

¹⁹ Ferrari M. 2004, 116

The Italian Government identified established its own Management Boards ²⁰, as an attempt to resume, at least, the aeronautical production. As we read assumes from the words of Ferrari M., these Boards had to adapt by implementing different strategies based on the factory in which they were called to operate. This maneuver was certainly a symbol of a strong and clear message to be launched by the Government, which once again emphasized its authority, propriety and presence in the aviation sector.

1.1.2 Government collaborations and the economic recovery

Furthermore, another objective of the Government was certainly to collaborate with company managers, supporting them in making decisions. The managers of those years were certainly shaken by the war and by the drastic drop in production; therefore, they found in the Government a support to start hoping for a fervent re-growth.

Among the maneuvers carried out by the Management Boards, there was the attempt (which fortunately had a positive outcome) to reduce expenses in order to make production in the aeronautical field more competitive. ²¹

Moreover, as if this were not enough, the effects of the war still continued to be felt. In addition to the obvious physical damages caused by WWII, the war has continued to cause also political damage to the Italian aviation industry. As we can read in the paper by Ferrari M., the armistice and the Management Boards of the Allied Countries imposed harsh conditions for the production of aircraft.

These categorically forbade the production of new airplanes, prohibited the implementation of civil aviation and the forcing to interrupt immediately the productions started, until a Peace Treaty between the various Governments would have been reached. ²²

Finally, after a long political work by Governments, the long-awaited Treaty of Peace is arrived. This event, in addition to having a strong economic value, has assumed still an

²⁰ Named *Consigli di Gestione* settled by CNL.

²¹ This data have been retrieved by Ferrari M., page 116, referring to Pietro Maggioni, Siai Marchetti 1945-1951, in V. Prugnola, F. Amoni, P. Macchione "La sindacalizzazione difficile", Milano, Vangelista, 1982 p. 267

²² Also thanks to Ferrari M., pages 117-118, we also succeed in becoming aware of the fact that in addition to the clauses imposed by other Governments on Italian production, the aviation industry saw itself freezing its claims on the State for commissioned production by the Ministry during WWII. Ferrari M. lists some solutions undertaken in order to allow the industry somehow to recover economically. Immediately after the end of the war it was common intent of the Italian factories to meet in associations to draw up a strategic plan to be implemented aimed at reconverting the sector to produce materials other than those for aeronautical purposes. On the other hand, the Italian Government also moved to try to unlock funds and grant funding to allow the factories to be able to work. Ferrari M. reports (p 118) that between 1946 and 1948 the total of the previously mentioned loans amounted to 9,314 million lire.

economic and liberating value for the fate of national production. Now, finally, the Italian factories could set aside the conversion jobs based on production differentiation strategies, and return to focus on the development and recovery of the future of the aviation industry. Even though pursuing purpose restrictions and limitations in terms of the number of units produced, finally in the Italian economic field the use of terms such as "civil aviation" and "aeronautical production" could return.²³

From this moment on, among the Italian factories, a climate of trust had been re-established regarding the revival of civil aviation, equal to that mentioned a few pages ago occurred after the end of the First World War. The trust of various investors had been triggered, among other things, by the release of licenses implemented by the Italian Government, concerning the exercise of aeronautical activity.²⁴

This confidence was demonstrated by the creation and establishment of seven companies, in 1946, obviously based on a future perspective since they did not have workers and aircrafts. The names of these airlines, as reported by Ferrari M, are: *Aerea Teseo*, *Airone*, *Transadriatica*, *Aviolinee Italiane (Fiat)*, *Ala Italiana*, *Lati* and *Impresa Trasporti Aerei*.²⁵ All this aspects symbolized a strong confidence in the re-growth addressed to an economic field directed towards a healthy competition guaranteed and protected by the governmental control bodies.

In addition, the situation seemed to improve even from the point of view of the loans granted to companies. While a few months earlier many companies were experiencing a period that was certainly not rosy, mainly due to the suspension of credits by the State, now the Italian Government wanted to move in this direction as well. The Italian Government provided for the constitution of the national airline of *Lai (Linee aeree italiane)* thanks, among others, to IRI funds (*Istituto per la Ricostruzione Industriale*) and loans from private investors.²⁶ Nevertheless, the real jewel among the Italian flag companies was about to be born soon. Thanks to collaborations with British organs, it was financed and realized the birth of *Aii*

²³ To be precise, referring back to the elaboration of Ferrari M., we find in the chapter "*The peace treaty and the revival of civil aviation*" p 121 of the specifications about the constraints dictated by the Armistice. As we read in the paragraph, the ART. 64 of the peace treaty set the limit of production up to 350 airplanes, of which 250 had to be fighter jet or reconnaissance planes, and 150 destined to training, transport and rescue.

²⁴ According to Ferrari M., page 122 this climate of trust had also been moved by the various international aviation control bodies (ICAO, during the Chicago Conference) and national (Federaerea).

²⁵ Ferrari M. 2004, 122

²⁶ *Ibidem*

(*Aereolinee Internazionali Italiane*) that a few years later everyone will be known by the name of *Alitalia*.²⁷

A strong signal of success of the numerous political and economic efforts by the Italian Government can be identified when the Aerea Teseo provided for the realization of the first civil flight, and therefore far from the war purpose, between Naples and Florence.²⁸

Moreover, this was not the only clear sign of the economic recovery on the level of civil aviation; the Italian Government received requests for airline concessions from as many as 34 aeronautical companies.

1.2 Economic liberalizations in the European market

Among the various main events that have affected the civil aviation industry, we must necessarily remember the phenomenon of economic liberalization. But before moving on to the analysis of how the Italian government has come to have to cope with such an economic choice for civil aviation, it would be better to introduce the theme of liberalization.

*"The liberalization policies concern the abolition of the various restrictions on domestic production, the movement of capital, and international trade"*²⁹ This academic definition of economic liberalization policies highlights the State need to face a new challenge, dictated by the constant growth of competition, by ever lower barriers to entry, by easy access to productive resources due to the course of events and finally to the increasingly rapid communication and the pressing paces dictated by globalization. In addition to the factors just mentioned, if the Italian Government has felt the need to move from a public economic policy towards an increasingly privatized one, it is also due to the creation of the single European market. Economic liberalizations, especially in the transport industry, have proved necessary to open up to the unification of the market, historically dominated by public monopolies. We can summarize using two clear goals that affirm that these economic liberalization policies have benefited the competition of the single market and the better allocation of resources.³⁰

Now it is the time to investigate the reasons behind the historical roots of the Italian Government's desire to support the national economy through public monopolies and State-owned enterprises. In the previous paragraph we were able to note how much the Italian

²⁷ Here Ferrari M., announces that the effective date of establishment of the two aeronautical companies, following various administrative checks, can be placed as of 4 December 1946.

²⁸ Ferrari M. 2004, 122-123

²⁹ http://www.treccani.it/enciclopedia/liberalizzazione_%28Dizionario-di-Economia-e-Finanza%29/

³⁰ Vitali G. 2010, 3

Government cared about the aeronautics sector, enough to invest huge economic and political efforts for it, in order to revive the industry, above all following the dramatic consequences of the two world conflicts. Moreover, as already discussed above, Italy was not the only one to think of it in such a way; it is no coincidence that two international conventions have been recorded in history, both aimed at regulating air traffic and the aeronautical industry. In this regard, in 1919 the European States regulated air freedoms under a mutual concession regime between them, during the *Paris Convention*. In short, this Convention has established that every State should be sovereign of its own air space with the exclusive right to be the only body with the power to issue authorizations in terms of overflight and air traffic, in the aforementioned national airspace.³¹

Subsequently, the European market then had to deal with those who were the pioneers of aeronautical liberalization practices, namely the Americans. The US had to struggle a lot during the *Chicago Convention* in 1944, in which they had to deal with the different point of view and political thought of most European states, especially Great Britain. The conservative and protectionist movement of European states has led Americans to give up most of the points discussed in Chicago Convention. It was an unequivocal intention, that of the Americans, to regulate the right of entry into foreign airspace for commercial purposes, especially to take passengers and / or cargo on board.³² Following a hard-fought debate, the participants in the Convention agreed to overflight in an airspace different from that of their own country with the prohibition of making stops on land with the sole exception of being able to make a *technical stopover*, which involves the no boarding of passengers and goods³³, which was actually what was most pressing for the affairs of the American aeronautical industry.

On the other hand, the US certainly did not give up. Commercial agreements continued and new matters were introduced in the field of air liberalization, so as to in some way force European States to comply with these rules, in order to keep the European civil aviation industry sustainable. With smaller and more numerous agreements between the two continents, we have arrived at the implementation of economic liberalization policies in terms of aviation also in Europe, which officially entered into force in April 1997. In practice, new standards were introduced, embracing international air transport; conservative rules and points of view of European States were distorted, including, of course, Italy. Now, these countries

³¹ Arrigo and Giuricin, chapter 4 "La liberalizzazione del mercato nell'Unione Europea", 2006

³² *Ibidem*

³³ *Ibidem*

had to put aside their stringent public interventions on the subject of civil aviation in favor of new rules for free access to the market, tariffs and competition, all aimed at a single common purpose: opening to an EU market (Arrigo and Giuricin, 2006)³⁴. This has led to the entry of new operators into the market and, at the same time, it allows competitive strategies for the current market operators, up to that moment not feasible.

1.3 Short insights about the State-owned enterprises

Generally is difficult to assign a unique motivation for the creation of the State-owned enterprises. As the history has taught us, those creations have depended on the particular economical, social and political situations of one Country. In order to make clearer the motivations for the creation of State-owned enterprises is useful to analyze their grouping.³⁵ The motivations can be grouped in three broad categories (Toninelli, 2000): the first one is represented by ideological and political beliefs, the second reasons are social ones and the last one concerns economic motivations. Furthermore, the State participations embedded several fields (Bös, 2014). Particularly we can distinguish them in four categories: public utilities, basic good industries, finance, education and health.³⁶ Anyway, the list will be completed adding a fifth category named "strategic sector" (Felice, 2010) comprising both final and intermediate industrial goods.³⁷ This addition is likely due to the ever-increasing presence of the State because of the continuous evolution of public utility arenas.

By definition, being a State-owned enterprise is not necessarily a strong point. When the Government takes part in private organizations he will probably use managerial tools and skills less developed than the ones used by the managers in the main competing organizations. In addition, a goal of a State-owned enterprise can be sometimes different from the maximization of profits. Referring to the above mentioned motivations, the Government

³⁴ It is interesting to end with this discussion, reporting some arguments of the article by Arrigo and Giuricin. The two authors focus on how, through these changes, the European Union has laid the foundations for an increase in competition, based on the American model.

³⁵ This grouping was depicted by Toninelli, Pier Angelo. "The Rise and Fall of Public Enterprise." *The rise and fall of State-Owned Enterprise in the Western World 1* (2000). Pag 5-9

³⁶ Is possible to read about this interesting distinction in Bös, Dieter. *Public enterprise economics: theory and application*. Vol. 23. Elsevier, 2014 pages 16-19. The first category refers to the public services offered by the Governments and some example are also reported in the article of Felice State ownership and international competitiveness: the Italian Finmeccanica from Alfa Romeo to aerospace and defense (1947–2007).", p 596. The above cited public services concern utilities, communication and transportation. Then, Government acts in the supply of basic commodities which represent the second category; Felice reports example such as coal, oil, steel. The last two categories are easier to understand and they are the finance field even so banks and insurances, and the education and health services.

³⁷ Felice State ownership and international competitiveness: the Italian Finmeccanica from Alfa Romeo to aerospace and defense (1947–2007) 2010, p. 597

would guarantee welfare and social benefits through the use of the companies that it owns. By contrast, State-owned enterprises will for sure get less stressed in finding funds since they can receive directly public finance from the Government. (Felice, 2010)

Now it is easy to guess that when the State-owned firms are compared to private ones, they appear as less efficient; conversely historical insights have shown us that when State-owned companies pursue profits maximization, they perform well as the privates.³⁸

1.3.1 The intervention of IRI for the aircraft industry: Alfa Romeo case

After this brief introduction to the subject of public participation, we will now analyze the experiences of these participating companies in the field of aircraft industry. As mentioned in the previous paragraphs, the main objective of the Italian Government was to make its companies compete better with those of other countries; one of the means pursued was that of market diversification (strategy implemented also by Alfa Romeo, as we will read later). So it was that after the crisis of 1929 the Fascists wanted to take financial control of the main Italian companies, without nationalizing them completely. Another looming goal was to revive the nation's leading banking groups from imminent bankruptcy.³⁹ In this regard, under the fascist regime, exactly in 1933, the State-holding *IRI* (Istituto per la Ricostruzione Industriale) was established, which incorporated the largest Italian industrial business groups. It was the institution that best represented the State's intervention in the national economy. Within IRI, the largest diversified business groups were recorded between 1950 and 1973, confirming these numbers until the last decades of the twentieth century.⁴⁰ In addition to the economic aims, behind such public participations, there have been mainly political reasons, as the fascist propaganda manages to make us better understand.⁴¹ Not only large corporate groups have benefited from this political movement, but also small businesses. These small companies, not having direct means to increase their business, managed to exploit an indirect

³⁸ Here Felice uses the article from Bozec, Richard, Gaetan Breton, and Louise Cote. "The performance of State-owned enterprises revisited." *Financial Accountability & Management* 18.4 (2002): Pag 393-99.

³⁹ Mantoan, 5

⁴⁰ Binda 2012, 516

⁴¹ Here Binda 2012, 517 underlines the fact that sometimes the mere political objectives of this industrial reconversion, through IRI, went against the economic interests of the companies that the institution sponsored; just think, for example, of the political strategies implemented by the Government in those years, which required work on a short-term horizon, compared to the strategies of economic sustenance required by companies that obviously had needs for a longer time horizon.

advantage, namely that of reducing foreign competitors on the national territory, thanks to the work that IRI was doing by participating in large corporate groups.⁴²

A clear example, concerning the aeronautical industry, is that of the *Alfa Romeo*.⁴³ Being under IRI control, this engine company also pursued a diversification strategy. One of the many sectors that he went to embrace was that of the production of aircraft engines for the Italian Air Force.⁴⁴ That of Alfa Romeo was obviously not a random choice. The Government chose this enterprise because it was in line with the objectives of fascist propaganda, as it represented an image of technological industry with highly specialized workers producing engines and products with excellent sports performance, in international races. The fascist government saw many opportunities in Alfa Romeo, thus trying to transform this enterprise into a modern aeronautical engine maker.⁴⁵ After a few years, the Government personally took care of the appointment of the managers of Alfa Romeo, implementing a strategic and political project that was mainly based on the preparation and improvement of human capital skills. Subsequently, a second maneuver was that of bringing Alfa Romeo closer to the modus operandi of the American aircraft companies, competitors of Italy; this allowed to conduct business activities aimed at reducing waste by establishing new ways of doing business. After a short time Alfa Romeo became the only State engine industry in Italy.⁴⁶

1.4 ENAC: Italian civil aviation authority

In the preceding paragraphs we have seen the measures implemented by the Italian State over the years, in terms of civil aviation. Here we will discuss about the history, functioning and role of the ENAC (*Ente nazionale per l'aviazione civile*), the body that deals with the control of civil aviation in Italy.

The official constitution of the ENAC is traced back to the publication in the official gazette of n. 177 of 31 July 1997 of the Legislative Decree 25 July 1997, n. 250 "*Istituzione dell'Ente*

⁴² Binda 2012, 521

⁴³ A great contribution to the analysis of Alfa Romeo that will be made from here on, is due to the work of Mantoan, Alan Guido. "Localizing scientific management: Alfa Romeo in Southern Italy (1938-1943)."

⁴⁴ Mantoan writes, on page 2, that the Italian Air Force Minister, in 1938, asked Alfa Romeo to build a large plant for the production of aircraft engines for both the Italian and German air forces. The plant, continues Mantoan, also had the purpose of an eventual creation of its own airplane, and branded Alfa Romeo, which however never came to fruition because the agreement between the company and the Government in terms of design was missing.

⁴⁵ Mantoan, 5-6

⁴⁶ Mantoan, 9

nazionale per l'aviazione civile (ENAC)".⁴⁷ This complex article of law specifies the bodies, competences and administration of this important institution. In fact, in the text of the law, we read that the ENAC is a State body subject to the Ministry of Infrastructure and Transport. ENAC mainly deals with certifications, control, technicalities since it is the Italian authority for technical regulation, inspection and investigation into the certification and safety of the entire civil aviation sector. Article 1 of the decree establishes the nature of ENAC, which is "*it is a non-economic public entity endowed with regulatory, organizational, administrative, patrimonial, accounting and financial autonomy*". As we have seen before, the history of civil aviation in our territory starts well before 1997. In fact, it is the concern of the Italian law to specify that the ENAC will replace old organs, its historical predecessors, which have performed similar functions during the history of aviation in Italy. The State has always wanted to support and sustain the economic development of the aviation industry through the use of various institutions. This is well specified in the article 2 of this decree, where in fact we read the names of the predecessors of Enac that the same entity will replace. They are: *Dgac* (Direzione generale dell'aviazione civile), *Rai* (Registro aeronautico italiano), *Enga* (Ente nazionale della gente dell'aria). Over the years, through these institutions, the Italian Government has exercised its public presence in the aviation sector.

Now, having understood the history of the formation of such an institution, it is time to dwell on the organization, functions and roles of the ENAC. By law the seat of ENAC is in Rome. The most important organ within the organization is the President.⁴⁸ For the purpose of greater public control, the process of appointing the figure of the President provides for strong State intervention. In fact "*The nomination procedure of the President foresees the designation by the Council of Ministers on the proposal of the Minister of Transport, and therefore the opinion of the Transport Commissions of the Chamber and Senate and finally the Decree of nomination of the President of the Republic.*"⁴⁹

Something similar, although in a less complex way, can be applied to the appointment of the other bodies of the ENAC. The State intervenes through its organs, also for the appointments of General Manager, Board of Directors and Board of Auditors. Now that the structure of this body is more familiar to us, and we have understood better the importance of the Government presence in this agency, we can go on to analyze the roles and responsibilities of ENAC. The most complete definition of its roles can be found in the Navigation Code. In this Code it is reported textually that "*the National Civil Aviation Authority (ENAC), in compliance with the*

⁴⁷ <http://www.parlamento.it/parlam/leggi/deleghe/97250dl.htm>

⁴⁸ The today's president of ENAC is *Nicola Zaccheo* as stated in <https://www.enac.gov.it/news/nicola-zaccheo-nuovo-presidente-dellenac>

⁴⁹ https://enac.portaleamministrazionetrasparente.it/pagina712_organizzazione.html

*powers of the Ministry of Infrastructure and Transport, as well as without prejudice to the specific competences of the other aeronautical bodies, acts as the sole technical regulation, certification and supervision authority in the civil aviation sector, through its central and peripheral structures, and takes care of the presence and application of aeronautical quality systems that comply with EU regulations".*⁵⁰

Departing from the legal part, we can see that ENAC has seven main areas of competence;⁵¹ these are: *Aviation Security, Passengers, Air Transport, Airports, Airspace, Environment and International Activity*. To better understand the activities, roles and functioning of this Governmental agency, let's briefly analyze each area individually:

- **Aviation security:** ENAC guarantees safety for passengers and prevention of flight systems, both in flight and at the airport. The ENAC distinguishes these two areas of intervention with the terms, respectively, *safety* and *security*. The first concerns safety certifications for aircraft and the suitability of all flight and technical personnel. The second area mainly concerns the prevention in terms of security of any damage and illegal acts that could be caused to the detriment of aircraft and operating systems.
- **Passengers:** this area of competence concerns the protection and control of the correct application of Passenger Rights. The entity performs these checks by defining and verifying the quality standards of both airport services and air transport services. The activities carried out by ENAC for this purpose concern certification, training and requalification of personnel.
- **Air transport:** this area of competence is the one that undoubtedly carries out the economic function of the entity. After assessing the efficiency and reliability of the economic entities involved, ENAC provides for the assignment and granting of buildings, goods and airport services. ENAC is the competent institution for the management and assignment of assets of the *Italian airport property*. Moreover, in this area there are also the duties of ENAC for the regulation of tariffs, the issuing of licenses and the verification of public service obligations on specific routes.
- **Airports:** ENAC plans to develop the Italian airport system. Controls and supervises all investment plans related to the Italian airport network. The main concern of ENAC is that of the safety of these infrastructures, connected to the organization, maintenance and control of the areas adjacent to the airports.

⁵⁰ Legislative Decree of May 9, 2005 n. 96 Revision of the aeronautical part of the Navigation Code, pursuant to Article 2 of Law No. 265 of 9 November 2004, published in the Official Journal No. 191 of 8 June 2005

⁵¹ <https://www.enac.gov.it/ruolo-competenze>

- **Airspace:** this refers to the control and provision of air navigation services. Here too the main objectives concern the guarantee of flight safety and their efficiency.
- **Environment:** as we know, planes are among the most polluting and most impacting means of transport on the environment. In order to safeguard and protect the national environment, it is the concern of ENAC to limit as much as possible the environmental impact of aeronautical activities, as well as the reduction and control of noise and atmospheric pollution through circulars and regulations.
- **International Activity:** ENAC is obviously the representative body of the entire Italian civil aviation system. The agency represents the Country in the various summits and in the various comparisons with other international bodies for the control of aeronautical activity such as *Icao*, *Ecac*, *Easa*⁵² and *Eurocontrol*. With these institutions, ENAC holds roles of confrontation and collaboration.⁵³

After this careful analysis of the seven areas of competence of the ENAC, we can find an exhaustive summary and collection of them in the corporate values well highlighted in the mission of the institution: *"ENAC, the Italian Civil Aviation Authority, in carrying out its functions of safety regulation, certification, surveillance and oversight in the civil aviation field, supports the development of the civil aviation by ensuring the Country, especially consumers and industry, the safety of aviation activities, the preservation of rights, the quality of services and fair competition within an environmentally friendly approach."*⁵⁴

We can see how the State is well behind the activities implemented by ENAC. As previously announced, even today, as well as in the early years of the development of the aviation industry in Italy, the Italian Government constantly tries to favor the development of civil aviation on the national territory. The State, through ENAC, promotes the safeguarding, protection, control and development activities of this sector with main focus on passengers and companies. These activities, as can be understood from the explanation previously given of the seven areas of competence of the ENAC, focus primarily on safety, prevention of illegal acts. Then we move on to regulatory and sanctioning actions in terms of passengers' rights and to define the quality standards of all operators involved in the field of civil aviation. Finally, the Italian State wants to regulate and control the competition in order to increase the

⁵² ICAO (International Civil Aviation Organization); ECAC (European Civil Aviation Conference); EASA (European Union Aviation Safety Agency).

⁵³ As stated in the Enac website, there are other aspects covered by the institution, namely *"the regulation of airport service procedures; the adoption of airport emergency plans; the collection and analysis of data on aeronautical events; development and implementation of international and national programs on flight safety, promotion of a culture of safety and the human factor in aviation, implementation of the recommendations adopted by ANSV (National Agency for Flight Safety); to family members of air traffic accident victims."* (<https://www.enac.gov.it/ruolo-competenze>)

⁵⁴ <https://www.enac.gov.it/en/mission>

economic development of this industry, allowing and regulating rules in terms of competition, all aimed at improving the economic efficiency of Italian civil aviation.⁵⁵

1.5 Evolution of airlines business models

As we have seen so far, the aircraft industry has always left entrepreneurs and investors hesitant. Since the early stages of its born, the aviation industry has always been revealed as a portion of market where low margins were obtained. This was among the various motivations that led the Government to take charge of this situation, and intervene publicly, in order to avoid damage and serious losses for those who wanted to think about investing in the aeronautical sector without the right skills and without good profitability strategies, considering that the aviation industry offered little profitability due to huge investments and overwhelming competition. Thus, among airline managers, there was the common need to become more efficient, going to review their strategies in terms of both company size and cooperation with other airlines. Obviously these choices could not be the same for all operators in the industry but differed according to the business models used to create their own market share in this sector. As it is easy to understand, these business models have changed over time and therefore, over the years, new ones have constantly been added.

For a better understanding of the sector and the division of the aeronautical market, we will now go on to list the different types of business models adopted. For each one will follow a brief description containing the main features of this model.⁵⁶

- **Full Service Network Carriers:** they have planes of all sizes, from the smallest to the largest. They focus on domestic flights, but deal with both European and continental routes. Although many of them are privatized, there are still few such companies in charges of their governments. They differ mainly since they provide numerous services to customers both on board and on land. They apply yield management and price discrimination policies, and distribute destinations or departures with a focus on the respective countries of origin.

- **Low Cost Carriers:** they are certainly the companies that have benefited to a greater extent from economic liberalization policies. As the name suggests, these are

⁵⁵ <https://www.enac.gov.it/mission>

⁵⁶ The list of business models that is going to follow is due to the work of Reichmuth et al. (2008), chapter 2 "Definition of Airline Business Models"

companies that are based on the principle of cost reduction. They use a fleet with medium-sized and homogeneous airplanes, allowing them to reduce on the main expenses. They are among the companies that spend less time on the ground, since it should be noted that when an airplane stops on the ground it does not bring profits to the company. The winning strategy of these companies was to grab a new market share through very low ticket prices. The low cost companies have obtained the new portion of the market which is that of passengers who would not have flown if not only with very low prices. Low cost airlines have started working with short-haul flights, and nowadays they are getting longer and longer as they cover flights.

- **Leisure Carriers:** they are companies that suffer seasonality; they are also called holiday carriers, also referred to as charter flights and are services that target tourists. They are offered by the companies themselves, or they are purchased by users in packages together with other tourist services. They closely resemble the business models of low-cost companies, also having a homogeneous and medium-large fleet. Unlike the business model analyzed above, these companies offer tourists numerous services on board, from comfort to food.⁵⁷
- **Regional Carriers:** they are airlines companies characterized by the small aircraft fleet that cover short-haul flights. Many of these do not work on their own, but serve as a complementary service to companies that deal with long-haul flights, to connect passengers to more specific areas than the main airports where they are usually landed.⁵⁸

This list of business models will undoubtedly help us to build a clearer idea of what strategies the airlines have had to use in order not to leave the market and try to differentiate themselves from competitors and therefore try to obtain an ever greater share of profits. Now, however, we should try to understand what developments and changes have led to the introduction of

⁵⁷ Here Reichmuth et al. (2008) give an example of how many of these airlines threw themselves on an "ethnic" traffic market; a clear example offered by the authors is the one involving the many daily routes between Germany and Turkey.

⁵⁸ For greater completeness of knowledge of the business models of the airlines it is good to note that the study by Reichmuth et al. (2008) continues citing three other business models, namely: *traditional freight carriers*, *integrators* and *hybrid carriers*.

these business models, whose need has been felt over the years, for the reasons discussed above.⁵⁹

The first to be involved in this spiral of changes were the airports. At first it witnessed the birth of new airports with the simultaneous transformation of old military airports, increasingly less used, thus transforming their military-civil purpose into a civil one. These airports had the aim of trying to attract as much air traffic as possible on their soil, carrying out real marketing activities towards the airlines carriers.⁶⁰ Alongside the strategies implemented by airport operators, companies have also had to evolve their range of services offered to customers. Many traditional airlines have divided their operating units by moving towards the concepts of Jet, in order to be able to provide customers with both international trips and convenient short-term trips. On the other hand, other smaller airlines have moved to a much larger fleet and services, the so-called "*mega-carriers*".⁶¹

⁵⁹ The following motivations that will be examined in more detail refer to the study of Bieger et Vittmer 2011, chapter 5 "*Airline Business Models*"

⁶⁰ Here the authors Reichmuth et al. clarify us with the example of Frankfurt Hahn which developed into a Ryanair "hub".

⁶¹ Here too, Reichmuth et al. they delight us with the clear example of the Star Alliance, so the alliance between two *mega-carriers* as Lufthansa and Air France and of SAS which is the regional carrier of the Star Alliance abovementioned in the Northern Europe.

Chapter 2

Alitalia: history and understanding of its management, from its birth to current events

This second chapter aims to bring the reader into the historical and political context that has accompanied all the years of life of Alitalia, the Italian flag carrier. In the various sections and paragraphs of the chapter we will first analyze what will be the historical vicissitudes of the airline and then move on to understanding the various management of the Italian company, up to the last maneuvers carried out together with the Government in order to try to bring Alitalia back to be among the best airlines.

The chapter opens arguing the story of the company. We will talk about the historical context in which its constitution took place, its first flights up to the years of the merger with the other Italian flag company, LAI, with which therefore it no longer had to divide up the national territory. The Italian Government strongly wanted its own flag company, and, thanks to its political maneuvers, it succeeded in making Alitalia grow in the years following the merger. Going forward in time, however, these policies became much more insistent and also because of these Alitalia failed to defend it against the changes that liberalizations had induced in the civil aviation market. Obviously these were not the only facts that pushed Alitalia towards the crisis; continuing the reading of the first paragraph, is possible to find out what were the causes of the crisis of the Italian flag company, which will then be analyzed later.

After the history of Alitalia, we will discuss about the central theme of the chapter, namely the management of Alitalia. First of all, we can read how Alitalia has been managed throughout history. The study of Alitalia management will begin by analyzing the moves put into practice, within the historical and political context that preceded the merger of Alitalia with LAI. As a result of this event we will better study how the main directors succeeded each other, and we will be able to understand the extent of the help and government presence, through IRI, about the management of the company. It will retrace all the years of Alitalia path, analyzing the main management methods that have been used for the Italian airline. In addition to internal management, we will then talk about the division and geographical distribution of Alitalia flights and how the intercontinental routes faced by the company were managed. After the analysis of the management during this period of growth of Alitalia, we will then talk about the more difficult management of the whole history of the company, namely that during the years of the crisis. In this section is possible to read about the attempts

of the Italian Government that tried several times to merge the Italian company with foreign companies, to then abandon this option and attempt entrusting it to a group of Italian entrepreneurs. The disappointing results will then lead the Government to find the only way out of the merger with the Etihad emirates.

Subsequently, the third paragraph will tell us about the most recent results and consequences of bad management, highlighting, lastly, the desires implemented by the new Italian and Emirate management.

The conclusion of this second chapter will allow us to briefly reflect on political and trade union relations and how these relationships have influenced the Italian airline and its main stakeholders.

2.1 The history

The birth of Alitalia was due to one of the most disastrous events of the last century, namely the Second World War. In 1946, in Rome, with private contributions, the airline was set up which at the time bore the name of *Alitalia - Aerolinee Italiane Internazionali*. A few months after its birth, the airline carried out its own domestic flights connecting the Italian capital, Rome, its base, first with Turin and then with Catania, in Sicily. The company took hold immediately. The first international flight to Alitalia occurred in conjunction with a special mission that was entrusted to her. Alitalia's aircraft were chosen to transport thirty-eight sailors from Oslo to Rome. Only eight months later Alitalia ventured a first flight to South America, as destination Buenos Aires. It was a route with which they wanted to complete an excellent, almost pioneering result, considering that the length of the section was almost 36 hours of flight, following numerous layovers before reaching Argentina.

As you can well guess from these lines, the Italian company was constantly expanding and the routes to be traveled increased more and more. This period of expansion was personally followed by a pilot and aeronautical engineer named Bruno Velani. He first held the role of Technical Director and then held the position of Managing Director of the company in 1957. This date is very important for the history of the Italian flag carrier and above all sanctioned a fundamental springboard for the company's profits. Specifically, in this year, there was a merger between Alitalia and LAI, the other company of the State. After the merger the new company took the name of *Alitalia - Linee Aeree Italiane*.

The income gradually began to increase. Now the new company could play an almost monopolistic role, since it was now the only national airline for the Italian Government. This

body greatly influenced the economies of the company and the strategic choices of its directors. For example, a few years after the merger with LAI, Italy managed to grab the 1960 Olympics, allowing Alitalia to be the official means of transport for the world event. The following year a second airport was built in Rome, that of Fiumicino. The managers of Alitalia immediately transferred the operating base there, leaving the Ciampino airport, which then took a back seat.

The company was experiencing a great period of economic splendor. In the decade after the Rome Olympics on the seats of the Italian flag company sat a million passengers, to then become almost three million in the middle of the decade. A period of strong growth was facing both the Italian company and the overall civil aviation industry. Alitalia, thanks to the Government, managed to work very well. In the 1960s the Italian flag carrier served his first meals aboard his airplanes, bought increasingly faster and more avant-garde aircraft and to devote himself solely to domestic routes; the company deemed necessary, from the strategic and organizational point of view, to build his own branch which bore the name of *ATI- Aero Trasporti Italiani*.

The early 1970s continued in the wake of the previous decade. Alitalia continued its expansion with the purchase of a Boeing 747 and simultaneously inaugurating the first routes to the Rising Sun. As if that were not enough, only 10 years later, the Italian flag company founded its own flight school in Alghero, in Sardinia. The passengers transported in these years became about 10 million, a reason to boast for an entire nation. In fact, the Italian Government and the whole nation could be very proud of being represented by Alitalia in the industry of civil aviation. In any case, the politics in the company became more and more penetrating and, as we will see later, it was not always a positive factor for the fate of the company. In those years the managing director became Umberto Nordio who then was appointed as president of the company until 1988. He was the first to have to face the first union revolts and strikes, a sign of a socio-political context in a phase of change. However, in those years Alitalia reached the lowest step of the podium, placing itself in the top three of European airlines. The Italian company was preceded only by the Germans of Lufthansa and the giants of British Airways.

The history of the Italian airline continues until the market begins to change considerably even after the liberalization of which we discussed in the previous chapter of this thesis. We are now in the 90s and following the European liberalizations, Alitalia saw itself losing important market shares. The company, in 1996, created the *Alitalia Team* to manage its medium and long-haul routes, at low costs, to keep up with the economic policies of its

competitors. They founded their website the same year and then they founded *Alitalia Express* the following year, for regional connections.

At the heart of this decade the first real problems for the company began. Alitalia failed to respond to the competition of the period and to the new way of flying, at low cost, put into practice by its rivals. The Government did not even help the company with adequate investments and consequently many intercontinental routes were also lost, putting a strain on the company's coffers.⁶²

The union strikes always occurred with greater insistence and the small first efforts of the director Domenico Cempella that try to heal the company balance sheets did nothing. Cempella faced lengthy negotiations with the unions. In a few years he succeeded in eliminating the strikes, but he had to adopt new regulations for the company. At Cempella, excellent operational and efficient management of company assets must also be recognized; without these political maneuvers, Alitalia would have heavily impacted the disproportionate increase in oil prices of those years due to the First Gulf War. Finally, Cempella wanted to try, as a way of developing the company, to collaborate with other foreign airlines. Mergers will be attempted first with the Dutch of KLM and then an attempt was made, after Cempella's term, twice for the merger with the French of Air France, up to the present day with the intervention of Etihad.⁶³ Despite the public money paid to try to get the company back on its feet, Alitalia was destined for a crash that in no way reflects the happy and growing periods of the first decades of its birth, to which the Italian flag carrier was accustomed. The attack to the Twin Towers, the entry of low-cost airlines, the economic liberalizations, the bad management, the fluctuations in oil prices and too much political force designed, year after year, the way to lead Alitalia to an ever more substantial crisis.

2.2 Alitalia: history of its management

After discussing the history of Alitalia, let us now analyze what will be the heart of this second chapter; we will soon argue how Alitalia was managed and the managerial policies

⁶² As we will read in the following pages, only 16 intercontinental destinations remained to Alitalia.

⁶³ About these events, we will read more in detail in the next pages of this chapter.

whose managers have implemented throughout its history.⁶⁴ We will be able to take note of the managerial and political events from the establishment of the company to the present day.

2.2.1 The management before the 1957 merger

As we had the opportunity to learn during the previous chapter of this thesis, the first Italian flag company, *Ala Littoria*⁶⁵, was established in the fascist period, as a means by the Government of the time, to excel and compete with other states, together with the increase in national economic development.⁶⁶ The Government took charge of this company holding the total of the company shares. Through close collaboration with the military aviation (since civil aviation initially had difficulty carving out its own market) the Government succeeded in developing its own civil aviation sector. A few years after the formation of the Italian flag company, it began to take on more and more in the skies of Europe, the Mediterranean and those of the Italian colonies. Everything seemed to be going well until the nation entered World War II. At the end of this, *Ala Littoria* stopped operating and its buildings and aircrafts passed to the Italian air force. Following the fall of the fascist regime, then, the political forces of the time decided to end the Italian flag company, until then the mirror of a nationalist economic development in which many of the principles of fascism were reflected. Shortly after the end of the Second World War, Italy signed agreements, under which foreign airlines were allowed to enter the Italian market. Thus, two airlines were formed, that is: *Linee Aeree Italiane (LAI)* and *Aerolinee Italiane International (Alitalia)*.⁶⁷ It is precisely in this historical context that we can see the first governmental political moves that will characterize Alitalia's future economic path. These agreements, which then led to the Alitalia set up, are the result of

⁶⁴ The subsequent key steps, concerning the policies implemented by Alitalia, are mainly due to the work of Mantegazza A. *Alitalia and Commercial Aviation in Italy*. In: *Flying the Flag*. Palgrave Macmillan, London, 1998. p. 159-194.

⁶⁵ Born on the model of the European flag companies, *Ala Littoria* was born from the union of: *Società Aerea Mediterranea*, *Società Italiana Servizi Aerei*, *Società Anonima Navigazione Aerea*, *Società Anonima Aero Espresso Italiana*, *Società Adria Aero Lloyd* and *Società Nord Africa Aviazione* (Mantegazza 1998, 160)

⁶⁶ The Italian economy of the time was managed by the State through the *Istituto per la Ricostruzione Industriale (IRI)* of which we have already discussed in chapter 1. I consider useful to underline some data reported by Mantegazza 1998, 159. According to the author, IRI owned 21.5% of the Italian share capital and was the majority shareholder in 85% of the companies in which it had an interest. Mantegazza continues that the IRI's influence extended to 42% of the national share capital.

⁶⁷ The shares of these companies were owned for the 40% by Trans World Airlines (concerning LAI); British European Airways owned instead the 40% of Alitalia. The remaining 60% in both companies was owned by the State. Subsequently, 16% of Alitalia will be sold to other private Italian companies, above all Fiat. (Mantegazza 1998, 162)

the Armistice which prohibited Italy from operating independently in the aviation market.⁶⁸ In addition, the first flight routes for Alitalia were defined and managed through the holding control of the company's capital by foreign companies. The beginnings of international flights for Alitalia were, therefore, dictated by international historical agreements.⁶⁹

These were the years after the Second World War, where even aircraft manufacturers set to work to raise their economies. On that occasion also the airlines had to get supplies of aircraft. Both for political reasons and for economic reasons, Alitalia adopted a different strategy than LAI. Alitalia therefore purchased Italian and French aircraft and also in the following years it always tried to make moves different from those of LAI, for competitive reasons. Given that Alitalia (as will be specified better below) had, at the center of its business, only medium or short-haul flights, having as competitors main companies that used smaller aircraft than those who had to deal with long-distance flights, which in fact used decidedly bigger and therefore more expensive aircraft. Therefore, always keeping the eyes turned to study the moves of the competition, during a meeting the leaders of Alitalia decided therefore to reorganize their fleet of aircraft as soon as possible.

We arrive in the 1953, when the two airlines were the only ones to divide the national territory, but this was not enough to compete effectively with the other airlines on the market. The first move was made by LAI to acquire, in the same year, Fiat's Italian Airlines. Only four years later, through a good offer, Alitalia and IRI managed to complete the purchase of LAI. In 1957, Alitalia incorporated LAI, and supported by IRI officially became the Italian flag airline.⁷⁰

2.2.2 The years after the merger

The State, through its IRI institute, took over the reins of the air market on the national territory, thus allowing Alitalia to comply with the objectives already set by the Government years ago, namely to be able to compete effectively or even exceed the numbers of foreign competitors. To manage the newly merged company, IRI called on him an old acquaintance, namely Bruno Velani. In 1957 Velani was appointed managing director of Alitalia, not surprisingly he will be remembered as the father of the Italian flag company. Next to Velani,

⁶⁸ Ibidem

⁶⁹ The Ministry of Aviation granted international routes to Alitalia, leaving all the domestic routes to Italian Airlines. (Mantegazza 1998, 162)

⁷⁰ The new company was called Alitalia-Linee Aeree Italiane and the IRI held more than 50% of its capital (Mantegazza 1998, 163).

Niccolò Carandini was confirmed as president of the company.⁷¹ The first actions of these technicians, under IRI supervision, led Alitalia to the first capital increase to reach the sum of 50 billion lire, through an offer to the public of preference shares first in 1963 and then in 1968 (Mantegazza 1998, 164).^{72 73} As for the ownership of Alitalia, running briefly over the years, we can deduce that in the decade that followed the 1970s it remained substantially unchanged.⁷⁴ Alongside the ever-present IRI guide, numerous managers followed one another. Velani and Carandini will drive the company for about 20 years before being succeeded by Umberto Nordio who won the campaign against Cesare Romiti. Nordio will remain at the helm of the Italian flag company from 1973 until 1988.⁷⁵

Although theoretically the reins of Alitalia were held by IRI, the situation changed in substance. The aviation economy in Italy had to copy with several bureaucratic bodies as protagonists. It follows that no organ prevailed over the other in terms of authority or know-how and these inconsistencies did not benefit at all from the political maneuvers of Alitalia's managers. The first organ that pries into the management and on the political maneuvers of the company's managers was the *Ministry of State Shareholding*. This body tried to put emphasis on the sociality of the company, setting as objective of the state policy (and using precisely its medium, Alitalia) the reduction as far as possible of the economic divergences between northern Italy and that of the south of the State. Already at that time the development of Southern Italy was an object of interest for the Government. Hence the Government subsidies issued through IRI allowed Alitalia to actively promote air travel in southern Italy.⁷⁶ (Mantegazza 1998, 165). These subsidies, in 1973, were renewed. This time, however, IRI decided to grant government subsidies only for those sections that could be defined as public interest, in social terms (such as the development of less wealthy areas such as the South of the nation) or for routes that were intended to increase the flow of tourists to certain areas.⁷⁷

This aviation market in the south and in the main tourist sites soon proved to be a prolific business for Alitalia. In fact, the managers of the company together with the representatives of

⁷¹ His mandate lasted until 1960.

⁷² As stated in the text of Mantegazza, the buyers were Fiat and other investments trusts; the control remained in any case always of the IRI.

⁷³ Only in 1986 will Alitalia be seen listed on the stock market.

⁷⁴ For a better understanding I am reporting the words of Mantegazza's text, which help to understand more clearly the ownership structure of Alitalia at that time: "The ownership of Alitalia remained substantially unchanged throughout the 1970s and 1980s, during which time IRI underwrote the capital increases and covered the losses incurred by the airline. In 1994 IRI possessed 89.3 per cent of the ordinary shares, 78.9 per cent of the preference shares, and 82.5 per cent of the 'savings' shares (non-voting preference shares)." (Mantegazza 1998, 164)

⁷⁵ Mantegazza 1998, 183

⁷⁶ The period of implementation of this policy is relocated between the 1950s and 1960s.

⁷⁷ According to Mantegazza p.165, until 1963 the total annual subsidies received by Alitalia amounted to 500 million lire and then rose to 750 million and continue this positive growth trend over the years to follow.

IRI wanted to set up a company of their own property to which to entrust only this substantial slice of the market and these flights. For this reason, in 1963 he was born *Aero Trasporti Italiani (ATI)*. This company will have a life of its own until 1994, when it will be reabsorbed by the parent company. ATI will therefore benefit over the years from all the government subsidies originally intended for Alitalia which has forwarded them to its subsidiary. Moreover, considering that ATI's aerial activity was mainly to serve for purposes of public interest (as we have seen before), the Italian Government was not the only institution that was concerned with financing the company wanted by Alitalia's managers. Aero Trasporti Italiani, therefore, obtained in the course of its history funding from the *Cassa del Mezzogiorno* and from the European Community.⁷⁸

In this period Alitalia will benefit from the fruits of the managerial decision taken a few years earlier, namely to renew its fleet of aircraft. We are in 1966, the year in which the aviation market registered a huge presence of charter flights on the national territory with a consequent high threat of competitors for Alitalia. The Italian airline therefore decided to invest for the first time in a Boeing jumbo jet, model 747. It was a large plane, far from the policies desired by Alitalia but purchased at an economic moment where it was deemed necessary to use it, trying to break down competitors. Serving mainly tourist flights, the new aircraft was able to reduce unit costs, thus allowing tourists to receive packages of tickets at reduced prices. The basic idea turned out unfortunately not to be implemented in everyday life. The hypothesis studied of class differentiations aboard the plane between tourists and not, turned out to be much more complex in the implementation compared to what was considered during the meetings of the summits. As a result, there was a war of tariffs and ticket prices to try to grab larger market shares. As if that were not enough, to this must also be added a decline in the volumes of air traffic in those years.⁷⁹

Fortunately, it was not only tourists that determined Alitalia's revenues. The Italian flag carrier also benefited from the effects of the economic miracle that took place in Italy. On the seats of Alitalia's aircraft, as well as tourists, a good number of businessmen were constantly sitting among the various industries both in Italy and outside national borders, taking advantage of the period of economic boom that was happening.⁸⁰

⁷⁸ After the re-absorption of ATI by Alitalia, subsidies of an estimated 40 billion dollars a year have been estimated (Mantegazza 1998, 166).

⁷⁹ Mantegazza 1998, 171. In the same page, Mantegazza offers us numbers that help us understand how far the decline in international air traffic was recorded. The annual growth rate was only 8.8%, thus half of that recorded in the previous decade

⁸⁰ The flaw of Alitalia was not being able to transport a good number of businessmen even in the years following the economic boom period.

Therefore, as can be deduced from these lines, Alitalia has always had a privileged role. In addition to the substantial benefits issued by the Government and other bodies, as we have just read, Alitalia has succeeded in reducing substantial costs which, on the other hand, any competitors would necessarily have had to face. Going specifically, Alitalia has always flown using government-owned airports, without paying any duty that all other airlines had to pay. Moreover, even the buildings used for air traffic control were free. Despite these advantages, however, Alitalia received the first criticisms in the management of its services, where it complained of flaws and inefficiencies in the provision of services.

Alitalia, more and more a symbol of Italianness, succeeded in exploiting this characteristic, even when the large aircraft found a different function from that of passenger transport, namely the transport of goods.⁸¹ In the decade after 1970 the fashion market began to take hold. The "Made in Italy" already distinguished itself from other foreign fashion houses, and for this reason it obtained considerable market shares with many customers to serve, scattered all over the world. For this reason, most of the shipments were entrusted to Alitalia, which could therefore carry both clothing and passengers at a time for Asia and the United States of America. So it was that as a first move Alitalia was forced to increase its fleet of aircraft for long-haul flights.⁸²

2.2.3 The geographical management of air routes and the development of the intercontinental network

As you can guess, the various historical periods and the Government's policy moves have therefore influenced what concerned the destinations of flights and the air routes covered by the Italian flag company.

First, almost at the time of the establishment of Alitalia, the main geographical destinations were divided between South America, the Horn of Africa and North Africa.⁸³ Alitalia, especially for South America, was the vehicle used by old Italian emigrants who rumbled in the cities that had given them new hope, after the world conflict, and by new emigrants looking for a better occupation in the South of the American continent. The managers of the company, besides developing the European and national routes, of which we have spoken

⁸¹ Thanks to their large size, the aircraft could be used for half as a passenger transport and half for goods transport.

⁸² Furthermore, Pininfarina's machines also flew, thanks to Alitalia, to the General Motors factories. In this decade, compared to the previous one, the transport of goods for Alitalia went up from 10% to 20%. (Mantegazza 1998, 171)

⁸³ Mantegazza 1998, 173

previously, had above all the intention to increase the air traffic of Alitalia towards the United States and the North Atlantic in general. The leaders of Alitalia, thanks also to the remarkable work of the Italian Government, succeeded in obtaining the much sought-after goal of increasing the number of destinations in the United States. The Government had to work a lot, politically speaking, because of the political refusals of the American authorities due to old historical agreements signed between the Americans and Italy. Over the years, however, the shooting had to be repeated several times to keep pace with new regulations and with the various competitors entering the market. For these reasons the managers of the Italian flag company decided to reduce the number of stopovers together with the frequencies, and begin to implement maneuvers aimed at the substituting of its aircrafts.⁸⁴

Moving instead to the other side of the globe, the Asian continent has never represented a fulcrum of great interests for the managers of the Italian flag company. Alitalia carried out flights in these regions which however did not move the balance needle on the economies of the company. Similarly, the southern hemisphere of our planet was a seasonal business resulting not very attractive to Alitalia's managers. To change the "rules of the game" the American deregulation and the liberalizations in Europe intervened, of which we have mentioned in the previous chapter. Even Alitalia, like all other companies, had to deal with a new way of doing business and the definitions and assignments of airports and flights.

As far as the geography of the air bases chosen by Alitalia is concerned, these were made to fall back to Milan and Rome. In the Italian capital the base chosen by the company was Rome Fiumicino airport. Subsequently the managers of Alitalia decided to buy some shares of a new company established, called *Aeroporti di Roma (AR)*. This company was responsible for the management of the two Roman airports (Fiumicino and Ciampino). Only in 1995, due to the need for cash, Alitalia's top management decides to sell its AR shares to IRI.⁸⁵

Subsequently, constant negligence in treating and improving the efficiency of the airports of its base city, in conjunction with the climate of change brought about by liberalization, led these airports to be less attractive and to work at lower conditions than those of other European cities. To pay the costs was obviously also Alitalia that saw a decrease in the traffic assigned to her in Northern Italy, in favor of those of the European competitors who instead increased.

⁸⁴ Mantegazza 1998, 175

⁸⁵ Mantegazza 1998, 177

2.2.4 The management during the crisis

In the previous pages of this paper, we have seen alluded to the desire to merge Alitalia with foreign competitors, to revive the fortunes of the Italian company, while the political forces were divided between those who wanted to follow this strategy and those who would have preferred to preserve the Italian character of the company, therefore not entering foreign companies into negotiations. In this section we will instead go on to analyze the company's history in recent years with the attempts of its managers and the Government to try to bring the Italian flag company back to light. In the next few lines we will argue about how the Alitalia crisis was managed and the political moves that were used.

In any case, in those years the government policy tried to pursue the road of merger for the first time. It was possible, after a hard and difficult job, to draw up two agreements with the Dutch of KLM. These were attracted to the new Malpensa airport, while the Italians of Alitalia could in this way concentrate short and medium-haul flights, leaving the longer routes to KLM. The prospects were the best and the capacity of the two companies reached excellent numbers that could finally bring Alitalia back to the market shares to which it had been accustomed throughout history. Following this merger, it was possible to count almost 300 aircraft with the possibility of flying passengers up to 40 million on board. Unfortunately for Alitalia, this of the Italian-Dutch merger was only a daydream. For various political reasons⁸⁶ Malpensa airport delayed its opening. At the same time, oil prices increased and the Balkan war considerably reduced the routes destined for the transport of civilians. Thus, KLM withdrew from the agreement, losing to the Italian flag company in court.⁸⁷ However, the compensation amount was not used by Alitalia to raise her head.

The break with the Dutch was only the first of the political maneuvers wanted by the Government and by the direction of Alitalia to try to get out of the crisis period. An even harder blow to take in was the famous 11 September 2001 with the attack on the Twin Towers in New York. No airline will be able to quickly respond to this severe blow that brought terror and consequent drastic drops in the number of passengers carried. The only one who managed to answer almost immediately was the Irish Ryanair which, by offering cheap tickets, managed to overshadow the fear of getting back on a plane, dictating new rules for the civil aviation industry. Obviously, even Alitalia had to deal with these new realities.

⁸⁶ The reasons were firstly the fear of losing odds at Fiumicino airport, and the difficult connections between Malpensa and the city of Milan.

⁸⁷ The Dutch airline was sentenced in 2002 to compensate Alitalia with the exorbitant sum of 250 million euro.

Alitalia's presidency now changed managers and directors very quickly, but no one was able to find a solution for the Italian company. Then the Government in 2006 tried to sell the majority of the company shares. But no one answered the call. The merger with Air France was then attempted as a way out, which in turn had already incorporated the near-failed partners of Alitalia, namely the Dutch of KLM. The Government, however, failed in the complicated bargaining with the French, who withdraw and this time also ended with a stalemate.

At this point the Government tried with a maneuver aimed at preserving the Italianness of Alitalia. The Government called to itself a group of Italian entrepreneurs, led by Roberto Colaninno.⁸⁸ We are in 2008 when, under the direction of Colaninno and Corrado Passera, was born *Piano Fenice*. This political maneuver predicted the splitting of Alitalia into two companies: a "bad company" sponsored by the Italian Government and a "good company" that will take the name of *CAI - Compagnia Aerea Italiana*. The Government did not stand by and financed a loan of 300 million for the company's coffers.⁸⁹

It is obvious to think that the takeover of the previous few years, in the hands of the French of Air France, would have been much more advantageous and would not have led the Italian government to put on its shoulders a bad company full of debts. To surround this disastrous situation, the economic crisis of the years of the Great Depression also raged. Unhappy business choices, the low market shares of low-cost companies, the reduction of intercontinental flights to only 16 destinations for Alitalia and the non-development of Malpensa airport, were the different pieces that Alitalia lacked to complete the picture of disaster that had begun in the years between the new millennium. Alitalia soon also had to face competition from the State Railways *Ferrovie dello Stato*, which could cover the national network at lower rates than those of the Italian airline.

We arrive therefore in 2012 when the then managing director Rocco Sabelli⁹⁰, before resigning, he knocked again at the doors of Air France, which due to its financial problems had to once again reject the offers of the Italians. The last glimmer of hope came in 2014 when, after a capital increase and the resignation of the board of directors of Alitalia and of its president Colaninno. An agreement was reached with the Etihad emirates with an offer by the

⁸⁸ This group of entrepreneurs was called "Capitani Coraggiosi". Famous names such as Passera, CEO of Intesa San Paolo bank, took part in it. Then followed, among others, Colaninno, Benetton, Tronchetti, Caltagirone and Ligresti.

⁸⁹ Europe will enter the political debate of this maneuver, prohibiting this loan because it believed that it would go to classify it as a public subsidy, for the protection of competition between companies. After several political tables a compromise was found, in which the Italian Government was granted permission to grant the loan in question, provided that the burden of restitution fell on the newly formed "bad company".

⁹⁰ His successor was Andrea Ragnetti, albeit briefly, as his position at the top of Alitalia lasted only a year.

Italian Government of 49% of Alitalia. The following year, CAI took on the role of holding company controlling the remaining 51%. In retrospect, if the merger with a foreign company had been preferred in the past towards attempts at nationalization, Alitalia could have hoped for a better success of the crisis and above all would have saved a lot of public money. Despite the better governance of the Emirates' flight company, the costs continue to weigh heavily on Alitalia's balance sheet and the company increasingly places itself on the edge of the civil aviation market. If before there were no doubts about which was the airline to lead the Italian market now Alitalia must pass the baton to the Irish of Ryanair, who are the first airline of Italy.

2.3 Recent results of the bad management and new challenges for Etihad

The privileged status of Alitalia, given the Italian Government's assistance to them, did not always smile at the fate of the Italian flag carrier. The intentional adoption of an increasingly competitive business strategy on the part of the Government led to numerous disadvantages for Alitalia which, well loaned, translated into economic losses. Furthermore, the liberalizations and deregulation, the increase in oil prices, the strong bargaining power of Alitalia's employees, led the company to borrow heavily. In this regard, the managers, at the table with government consultants and trade unionists, at least tried to implement a restructuring plan. This involved both staff cuts and sales of some company-owned properties.⁹¹ The company also tried to recover through external growth by acquiring shares of 30% of *Malev*, the Hungarian flag carrier and later allying with the Americans of *Continental Airlines*.⁹² Both these moves, however, added little benefit to the coffers of the Italian flag company. Despite this, in 1991 Alitalia classified itself as the sixth European airline, but in any case remained much smaller than its European competitors.⁹³ The not always efficient management and the various political vicissitudes of which we have spoken so far have led Alitalia to several disadvantages⁹⁴ which did not allow the company to bridge the gap with its direct competitors. The first factors to be affected by this deterioration were the capital structure of the national airline as well as the availability of operating cash flow.⁹⁵ However, the high indebtedness of Alitalia reflected the financial structure of its main

⁹¹ Mantegazza 1998, 189

⁹² Ibidem

⁹³ British Airways represented triple the size of Alitalia, while the Lufthansa Germans more than double. (Carassai 1993, 56)

⁹⁴ These drawbacks, along with the benefits to be discussed later, have been listed by Carassai 1993, chapter 4

⁹⁵ Carassai 1993, 63

sponsoring body, namely IRI. Based on what was said in the previous pages, the latter body can say that it has almost destined its flag carrier to serve only specific customer targets. The people who sat on the seats of Alitalia's aircraft were, as we have seen, mainly tourists or emigrants. Only for a short time, following the Italian economic miracle, businessmen used flights of Italian companies; after the liberalizations, however, these companies have used aircraft able to offer rates and services more in line with their requirements, compared to those practiced by Alitalia. In fact, among the various challenges faced by the Alitalia management, there was also that of trying to revive the brand image of the company.

Moreover, the fruits of mismanagement ended up right in the courtrooms. To make the expenses of the extraordinary administration wanted by the judge were mainly three subjects⁹⁶: the workers damaged by the redundancies, the creditors which the most of them will remain unsatisfied and the shareholders who saw the value of the shares fall visibly.

About the present day, the target set by Alitalia's new foreign managers wants to turn Alitalia into a top airline in the short term. With this move of the Government, they wanted to preserve the Italian character of the company but making it work hand in hand with a strong foreign partner.⁹⁷ The final results of the new management seem finally positive. The new Alitalia governing body seems to want to increase the status of its brand and its services in general. These are working primarily to increase international routes using the various hubs of Etihad and its subsidiaries. Furthermore, the Italian company will see, after many years, a serious and consistent marketing plan⁹⁸ as well as the considerable increase in services offered to passengers. First of all, Alitalia customers now benefit from the Wi-Fi service, a better quality of food on board and more comfortable seats. Customers will have lounge rooms and new means for ground connections, between the boarding gate and the aircraft. Alitalia, as we could read in the previous pages, has been little accustomed to receiving business clients on board its aircraft. Now, thanks to the intervention of Etihad, business customers receive a private driver free of charge who accompanies them directly at the airport, both at departure and arrival. The staff will be increased and will be formed by *Customer Excellence Training Academy*.

So, the goal of being able to restore splendor to Alitalia seems to have found the right path, even if, as we have already mentioned in the previous paragraphs, the costs continue to weigh heavily on the Alitalia balance sheet and the market is still trying to push the Italian company on the edge of the civil aviation market.

⁹⁶ Distinction found in La Rocca 2016, 19

⁹⁷ La Rocca 2016, 24 -25

⁹⁸ All the services and advantages offered to the following customers can be read in La Rocca 2016, 27

2.4 Politics and relations with trade unions

Another factor that the managers of the company have had to consider is certainly the relationship between the company and the Italian unions. The company never showed the tough face to the unions, which led the company to increase the salaries of its employees and not getting what it asked for at the contract tables, such as concessions on improvements in production terms.⁹⁹ Moreover, as we have already seen before, the unions opposed several times between Alitalia, the Italian Government and potential foreign buyers.

While Alitalia was already "betrothed" to Air France, in addition to the Government that did not want to lose the Italian character of the company, the unions opposed the number of redundancies that Air France had requested. When subsequently the strategy of the so-called calls was passed *Capitani Coraggiosi*, the redundancies that took place were considerably greater than those requested some time before by the French airline. In hindsight, trade unionists would have agreed not to oppose the offers made by the French.

The damage of too much politics in the management of Alitalia, in the strategic decisions and in the choice of the managers has damaged Italian taxpayers to a greater extent. The public money disbursed by the Government reaches the exorbitant figure of 1 billion Euros. The Italian State has lost money in the various roles it has held, i.e. losing money both as a shareholder and as a bondholder. In addition, the Government had to support a high integrated cash number, disbursed loans that were not always repaid and finally had to compensate shareholders and private lenders, damaged by Alitalia's decision-making maneuvers.¹⁰⁰

⁹⁹ Carassai 1993, 64

¹⁰⁰ Stanghellini 2010, 406

Chapter 3

Critical aspects of civil aviation: discussion and analysis of the Italian scenario

In this chapter we will discuss about the causes that led flag companies to sector crises. After the analysis of the causes, we will focus on the Italian situation by discussing first on what were the sad fates of some of the Italian airlines. After having listed some of them, the discussion will continue about the Alitalia's analysis, especially on the causes of the crisis, partially resuming the discussion of this topic discussed in the second chapter. Afterwards, is possible to briefly see some technical, political and economic difficulties encountered by the Italian airline. Next, we will focus on the analysis of Italian airlines still operating in the area. In particular, we will examine five of these companies, firstly analyzing their profitability, their profits, revenues and their net financial position. From this analysis Alitalia will be excluded, as its special administration status makes the main data unavailable and therefore not comparable, putting at risk the comparability with the analyzed data of the other airlines. After the study of these five airlines the discussion of the chapter will continue with the comparison of the three companies with the most significant data, thus comparing their profitability, the ratio between debt and equity and, at the end, their productivity.

3.1 Difficulties and challenges in civil aviation

Among the consequences of the main economic and market changes in the civil aviation sector, we cannot fail to mention the numerous failed airlines. Every year they fail more and more, and this number in terrific increase is mainly due to increases in the cost of fuel and the lack of pilots.¹⁰¹ Other causes that have contributed to this situation are the unstable returns, high taxation, deregulation, weak volumes in air traffic and security problems.¹⁰² Despite the help of governments, the causes of technical and operational inefficiencies may be due to the impact with the external environment and variations in strategies resulting in differences in the networks served.¹⁰³ The small airlines companies that offer services for cheap are unable

¹⁰¹ <https://www.ilpost.it/2018/11/18/compagnie-aeree-crisi-costo-carburante-piloti/>

¹⁰² Min and Joo 2016, 99

¹⁰³ Barros and Couto 2013, 13

to stay in the margins, unlike their major competitors are mainly affected. Moreover, it would not be rare to see, even the bankruptcy, as is already happening, of companies not necessarily exclusively low cost, but therefore also belonging to larger business groups. As we know, the airlines have responded to the crisis by increasing cooperation between them. The airlines have thus also increased the coverage of long-haul routes, allowing large groups to be able to increase the gap with small companies, expanding more and more through the widening of international routes offered, preferring these over short-term ones,¹⁰⁴ which present greater competition.

First we mentioned some causes that led the airlines in this period of crisis. Undoubtedly, the increase in oil prices plays a leading role in this affair. For those wishing to move in the direction of expanding the business and the distances to be covered, it will have to make significant investments for its fleet, which, following the increase in fuel prices, can be defined as unsustainable.¹⁰⁵ The second cause we mentioned is the lack of pilots. This is due to the number of passengers that rises dramatically each year. There are few expert pilots so companies try to steal them from others with the possibility of being able, for those who can afford it, to offer them a bigger salary, making it difficult for companies that instead will have to do everything to keep them.¹⁰⁶ The young and small companies, as we have just been able to read, disappearing on the market, inevitably leads to a positive effect for the large airlines, that is to the reduction of their competition with the probable increase of new mergers.¹⁰⁷ Only those who will be able to react and keep up with the new market rules will be able to overcome the daily problems that the civil aviation market is forced to face.¹⁰⁸

3.1.1 The difficulties in the Italian scenario

Analyzing the historical and economic situation of Italy, as regards the civil aviation market, we can understand that the situation was not rosy for Italian companies.¹⁰⁹ We can start our

¹⁰⁴ Dennis 2005, 182

¹⁰⁵ I think it would be interesting to bring back a piece of this article from *il post*, where it briefly explains the business strategies used by low-cost companies that have only worked for a few companies. These companies, as reported in the article, wanted to eliminate business classes and additional services on board, they wanted to focus on small and distant airports to reduce costs. In addition, those traveling for business reasons prefer to travel more comfortably, preferring additional services, relying on large airlines.

¹⁰⁶ <https://www.ilpost.it/2018/11/18/compagnie-aeree-crisi-costo-carburante-piloti/>

¹⁰⁷ Also in the same article of *il post* is possible to read the example, in this regard, of the merger that took place in 2017 between Air Berlin which was taken over by its main and great competitor, namely the German giant Lufthansa.

¹⁰⁸ To bankrupt are mainly young airlines that try to get bigger fast, allowing themselves charter flights to scheduled flights along with the passage from short distances to long-haul flights, as reported by <https://atwonline.com/opinions/analysis-more-european-airlines-fail>

examples, telling the sad end of an air company wanted by the Italian politician Umberto Bossi, close to the new millennium that is the airline company called *Volare*. The idea was to enter the low cost market, taking advantage of its proximity to Malpensa airport. The company had a sad and precocious end, bringing part of its assets into Alitalia. In addition to politicians, even former commanders attempted to open their own airlines in Italy. In this regard, we mention Augusto Angioletti who established *EuroFly*. The market niche chosen by Angioletti was clear and fearless: he wanted to set up a line linking Milan with New York, offering on board exclusively a business class service, with the possibility of transporting a few people by offering a great luxury aboard the aircraft.¹¹⁰ As one can well imagine, the entrepreneurial project behind the design of this business model, did not find a practical answer among the market niches to which it had pretentiously thought to turn. Eurofly was detected by Meridiana's compatriots. The branch of super-luxury also attracted other Italian entrepreneurs who set up *Gandalf*, an airline that offered extra-luxury services to its passengers, which it declared bankrupt in 2004.¹¹¹ Finally, among the large airlines operating on the Italian market, we must also mention Air One absorbed by Alitalia.

Now, after seeing that even Italy has not been immune to changes in the air market and from crises as regards the companies that succeeded in its territory, we can find listed the most durable Italian companies that have had to surrender to the new needs of the market.¹¹²

¹⁰⁹ The successions and vicissitudes of the Italian airlines that will follow in the next lines refer to the article in https://www.ilsole24ore.com/art/alitalia-e-altre-tutti-crack-compagnie-aeree-italiane-AEiaygFB?refresh_ce=1

¹¹⁰ The aircraft in question, as stated in the previously mentioned article, was an Airbus model 319 airplane, with an economic value of 30 million.

¹¹¹ The same article quoted in the previous notes, reminds us how even Gandalf took passengers directly from their homes, taking them to the airport in luxurious limousines.

¹¹² For convenience, I entered only 12 airlines, classifying them in descending order by duration of service. The data was taken from <http://www.volarechepassione.it/linee-aeree/defunte-italia.html>, site to which I refer also for those wishing to complete the reading of the list of Italian companies no longer in operation.

Name of the Airline Company	Year of foundation	Year of cessation	Duration
<i>MiniLiner</i>	1981	2015	34
<i>ATI - Aero Trasporti Italiani</i> , merged into Alitalia	1963	1994	31
<i>Alpi Eagles</i>	1979	2008	29
<i>Alisarda</i> , name change in Meridiana	1963	1991	28
<i>Air One</i>	1988	2013	25
<i>Aeral</i>	1958	1980	22
<i>Eurofly</i> , merged in 2010 in the Meridiana Fly	1989	2010	21
<i>Air Europe (Italia)</i>	1983	2003	20
<i>Alitalia Express</i>	1996	2015	19
<i>Itavia</i>	1962	1980	18
<i>Volare Airlines</i>	1997	2015	18

Source: (<http://www.volarehepassione.it/linee-aeree/defunte-italia.html>)

3.1.2 The situation of Alitalia

In the second chapter we carefully analyzed all the vicissitudes that occurred in the history and strategic decisions that involved the Alitalia airline. Going briefly to analyze the results of the strategies undertaken by the Italian company, we can see that in the first years following the liberalizations, Alitalia held an increase in productivity until 1997¹¹³ due to increases in flights initially stimulated by the rise in competition. As can be deduced, following the analysis made in the second chapter, the declining numbers of Alitalia derive from the strategies undertaken as well as the governmental choices. It is enough to think, in this regard, by way of example, of the targeted and unusual and predominantly political strategy of opening a second main hub in Italy, at the Milan airport of Malpensa. In short, we can say that this strategy did not prove to be positive both for the geographical conformation of Italy and because political management did not allow, among other things, the development of the economies of scale that had been planned for Alitalia.¹¹⁴ After the various mergers analyzed previously, we add here the gradual entry of Alitalia into strategic strategies, after 2001,

¹¹³ Bergamini et al. 2010, 17. The authors also note that this increase corresponds to 17%.

¹¹⁴ Beria et al. 2011, 218

entering the SkyTeam alliance and adopting codesharing practices.¹¹⁵ A complex and expensive structure has led Alitalia to lose more and more market shares, suffering domestic and international competition, with losses of important respective market shares.¹¹⁶

Alitalia found itself having to respond, like all airlines, to the new demands imposed by the market. In these answers all the legacies that the government policy had left to them were reflected and that were not reflected by the market forces with which the Italian airline had to face off.¹¹⁷ Above all, Alitalia found itself having to operate, with unsuitable aircraft and flight networks designed to primarily satisfy the political requirements rather than the commercial ones, deriving from the rules of the market.¹¹⁸

3.2 Analysis and comparison of Italian operating airlines

In the previous pages we have analyzed the difficulties that have been present in the Italian context regarding the civil aviation industry. We have analyzed the causes of the difficulties in the sector and we have also reported some of the Italian airlines that have followed over the years, but which have had to surrender to market difficulties.

What has not been said, however, concerns the few airlines that are still active and operating on the Italian territory. In the next paragraphs we will briefly analyze the history and characteristics of five companies present on the Italian territory.¹¹⁹ Later we will continue with the analysis of some financial statement indicators, first individually for each company and then comparing the three airlines that show the most significant data.¹²⁰ All the data in the tables that follow are taken from the financial statements present on the AIDA platform, and are expressed in euros. In fact, immediately after the descriptions of the airlines, we will find two graphs where the first reports EBITDA, Net Income and Net financial position while the second graph will report the revenues of the company's sales; both charts refer to the three-year period 2016-2018, in order to analyze the most recent situations of these Italian airlines.¹²¹

¹¹⁵ Bergamini et al. 2010, 18

¹¹⁶ Ibidem

¹¹⁷ Beria et al. 2011, 219

¹¹⁸ Beria et al. 2011, 220

¹¹⁹ We recall what is specified in the introduction, that is that from this analysis Alitalia will be excluded for the special administration status in which it applies, which made the data unavailable in the reference database. For the purposes of the comparison I did not consider useful the data of the semi-annual reports of the extraordinary administration, reported on the official website <http://www.alitaliaamministrazionestraordinaria.it/?cat=7>.

¹²⁰ The three companies we are going to compare, as we will see later, are Air Italy, Air Dolomiti and Neos Air.

¹²¹ Only for Fly Ernest we will analyze the two-year period 2016-2017 due to lack of data for the last year.

In the discussions of our graphs, we will first see EBITDA.¹²² This indicator provides us with indications on the profitability of the company and since it concerns the operating management of the same, it is a useful tool for the comparison between companies operating in the same market, since it does not consider factors of an accessory and extraordinary nature. Thereafter we will find the data related to the Net Income that is the total profits realized by the company, in order to evaluate the profitability of this in a given financial year. Then we will find in the graphs the data about the company's Net Financial Positions (NFP). This indicator will provide us useful information on the company's liquidity and it can therefore be positive or negative; in the first case the company can boast a positive economic availability, while, if this figure is negative, the financial debt on the part of the company will be emphasized.

In the final comparison we will compare some indexes of the last decade of Air Italy, Air Dolomiti and Neos Air and we will do it defining at first their profitability by analyzing first the EBITDA margin that gives us information on the profitability of a company in terms of processes operational, comparing EBITDA to total turnover. Then we will analyze their ROA and ROE. The first, an abbreviation of Return on Assets, indicates the efficiency of corporate management regarding the use of company assets and how these affect the creation of profits, simply by dividing the net profit by the total assets of the company. The second, Return on Equity, is a synthetic index of company performance, calculated as net income on equity. After comparing these three indices we will analyze the debt-to-equity ratio with regard to financial indices. This index, which is calculated by dividing the total liabilities by the net assets, makes it possible to understand how much capital comes in the form of debt and to assess the ability of the company to fulfill its financial obligations. The last index that we will analyze concerns productivity and is obtained by dividing revenues by the number of employees during the year, i.e. the index of revenue per capita.

After these analyzes, a brief summary will follow summarizing the situations of the three airlines analyzed.

3.2.1 The analysis

Although with enormous difficulty in surviving in a very competitive market, today there are few companies that still operate in Italy. Among these companies there is obviously Alitalia but, after the various difficulties of which we have widely argued, it operates in a special

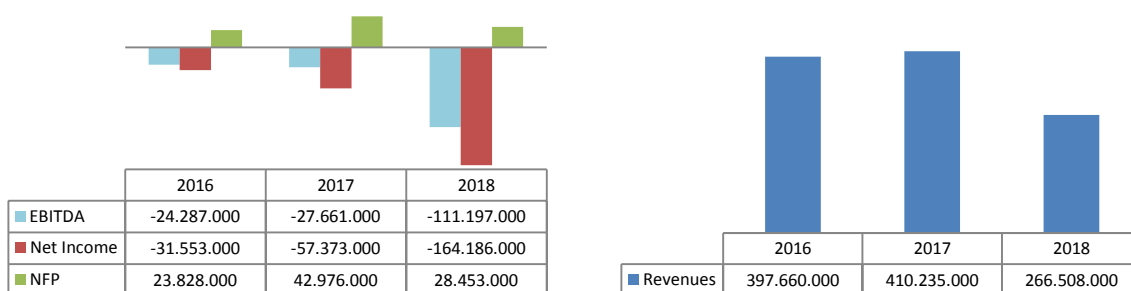
¹²² The acronym stands for "Earnings before interest, taxes, depreciation and amortization".

administration status, together with its subsidiary that deals with regional routes, i.e. Alitalia CityLiner. The other companies still operating respond to the name of *Air Italy*, *Air Dolomiti*, *Blue Panorama Airlines*, *Fly Ernest* and *Neos Air*.

Now let's analyze the aforementioned companies.¹²³

Air Italy

Air Italy is the commercial name of Air Italy S.p.A. Right at the beginning of this year, the leaders of a historic Italian airline, Meridiana, decided to change their name to Air Italy S.p.A. This is an Italian airline owned by AQA Holding (51% Alisarda, 49% Qatar Airways).¹²⁴ The headquarters remained in Sardinia, as Meridiana was born with the intention of promoting tourism in Sardinia, while the operational base is at Milan-Malpensa airport. Its fleet currently consists of eight Boeing 737s and five Airbus A330s¹²⁵ that the company uses not only for domestic flights, but also to fly on international routes.



These graphs show some data of the last three balance sheets of Air Italy. In particular, in the graph on the left we see the EBITDA trend, Net Income and Net Financial Position. As can be seen in this graph, the three-year data are all negative except those for NFP. The EBITDA indicates to us that the costs of the operating management of Air Italy, in the last three years, have been superior to those of the revenues and the trend is in continuous increase. As evidence of these negative performances, the loss-making management of the business also follows, with a negative profit of more than five votes compared to 2016, becoming almost an unsustainable situation in the long term, signifying this given that the operating activity goes

¹²³ The following analysis excludes from the Alitalia study and its subsidiary Alitalia CityLiner for the situation of the company declared of special administration. Furthermore, I would like to remind that the data of the financial statements that follow will all be updated to 2018, with the exception of Ernest S.p.A., where the latest available data are from 2017, as mentioned in the previous note. The figures in these financial statements have been expressed in euros and are taken from the reports on the Aida online platform.

¹²⁴ <https://www.airitaly.com/it/chisiamo/index.aspx>

¹²⁵ Ibidem

to burn the airline resources. Finally, the net financial position indicates a liquidity surplus, constant over the three-year period but with a slight increase in 2017.

In the graph on the right, revenues confirm the negative trends we have seen in the previous graph, where the net decline in revenues over the last year is evident.

The causes ¹²⁶ of these numbers, which are anything but positive, can certainly refer to the Boeing 737 Max of which the airline has that have remained on the ground after the incidents in Indonesia and Ethiopia, forcing the company to hire aircraft to comply with the plans of flight. In addition, the considerable drop in passengers and the cancellation of long-haul routes to India and Thailand, which were immediately canceled, obviously affected this situation.

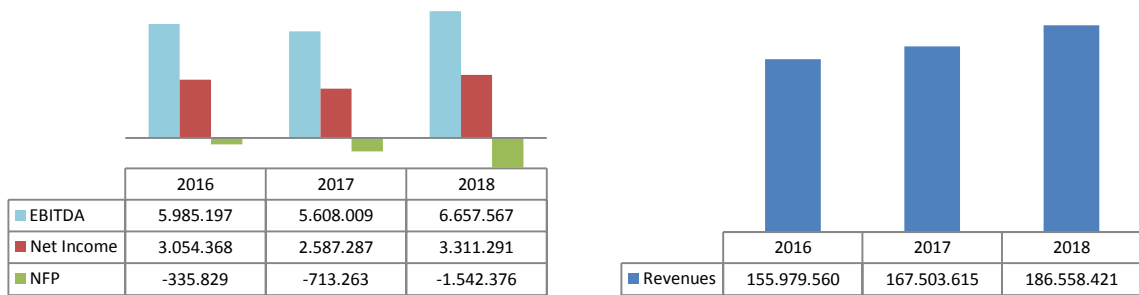
Air Dolomiti

The airline was established in 1991 and in 2003 its total control passed into the hands of Lufthansa. Commercially known as Air Dolomiti, the company has the full name of Air Dolomiti S.p.A. L.A.R.E. (Linee Aeree Regionali Europee). It has its headquarters in Villafranca di Verona (VR) and its operational centers are in Germany, that is, at the hubs of Munich and Frankfurt. The will of the Germans, strong also of the old close collaborations in the past with Air Dolomiti, are those of having an Italian division of the giant Lufthansa, in the intent, as the full name reminds us, of setting up a real regional company at European level. Air Dolomiti flies mainly on routes that connect Italy with Germany. Despite the support of the Lufthansa Group, the difficulties were also seen for Air Dolomiti; in fact, in 2012 Lufthansa's managers decided to resize the company by disposing of some aircraft, reducing the fleet to 10 aircraft and deciding above all for the labor mobility of 116 employees, of which 76 pilots and 40 flight attendants. ¹²⁷ The company, led by Joerg Eberhart since 2014, represents an excellent share of traffic volumes at Munich's German airport and, precisely following recent industry challenges, Air Dolomiti had to change its business model, continuing on one side volumes about the presence in the German hub, supporting this activity with operations managed under the commercial responsibility of the company. ¹²⁸

¹²⁶ These causes refer to https://www.corriere.it/cronache/19_agosto_17/air-italy-prim-anno-si-chiude-un-rosso-160-milioni-15d26af8-c04a-11e9-ad81-fff821b81ebc.shtml

¹²⁷ <https://www.cislveneto.it/Rassegna-stampa-Veneto/TRASPORTI.-Avviata-la-procedura-di-mobilita.-Air-Dolomiti-taglia-116-dipendenti.-Le-sigle-insorgono.-Sindacati-misure-troppo-pesanti-Azienda-voli-e-servizi-invariati>

¹²⁸ <https://www.airdolomiti.it/azienda>



Air Dolomiti demonstrates that its efficient management, on a German footprint, succeeds in concluding a positive balance with a profit in excess of three million, increasing after 2017. This profit has grown more and more and this is remarkable if you think to the constant losses to which the company had been accustomed until 2014. In fact, the net profit over the last three years is almost constant and positive. Also the EBITDA is constant and positive, reporting an excellent trend in the operating management. However, the Air Dolomiti NFP reports a difficulty in covering its financial debt by exposing the airline to lenders. In the graph on the right we can see that revenues are constantly increasing. In fact, the German managers of Air Dolomiti have always had clear ideas in terms of company growth, with ambitious goals that are being achieved step by step. The company wants to triple passengers over the next four years, introduce an Airbus A320 into its fleet and hire new staff from the 620 now ¹²⁹, up to 1000 employees. ¹³⁰

Blue Panorama

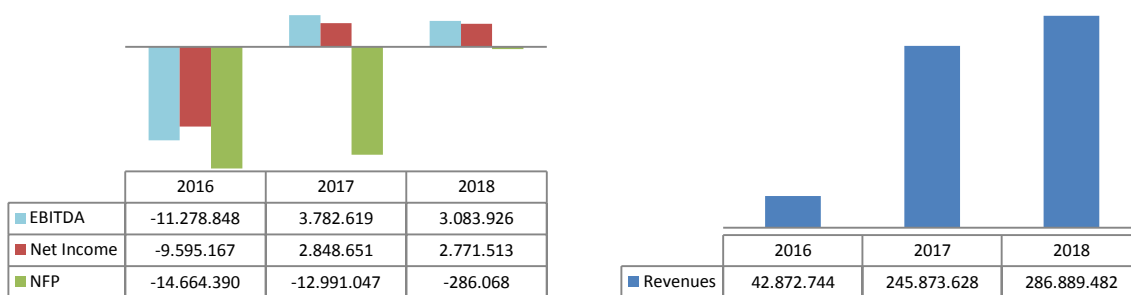
Blue Panorama Airlines S.p.A., commercially known as Blue Panorama, was founded in 1998 in Rome. It has a brand that deals with medium and short-haul low-cost flights both domestic and international, known as *Blu-express*. Its main operational centers are in Rome - Fiumicino and in Milan - Malpensa.

Also for Blue Panorama, 2012 was not a positive year at all. In that year the company asked for the arrangement with creditors and two years later it was put into extraordinary administration. Eventually the agreement was found and the company was sold to the Uvet Group. The company works with travel agencies to fly Italians on vacation, especially in the Caribbean. Not by chance, in Cuba, the airline lands in 7 airports. In addition to the

¹²⁹ Data taken from Aida.

¹³⁰ These growth strategies were taken from the article <http://www.guidaviaggi.it/notizie/195670/>

Caribbean, Blue Panorama is recognized as a reference point for Italian holidays in the Mediterranean, especially with 19 connected airports in Albania.¹³¹



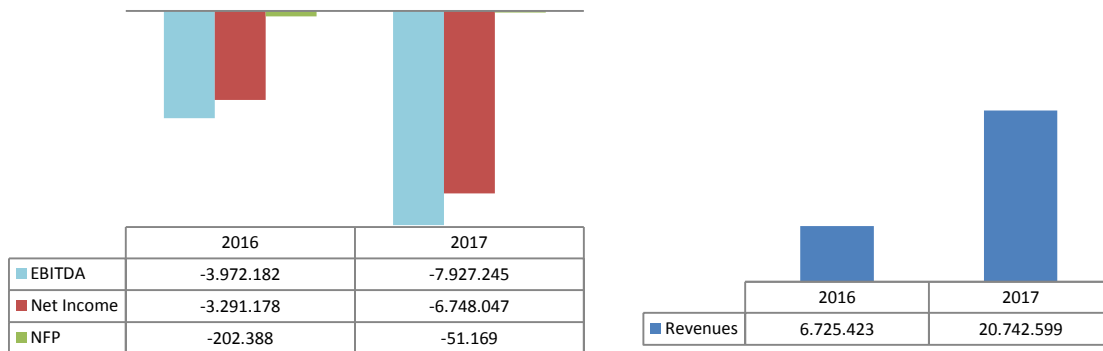
After the negative EBITDA in 2016, Blue Panorama has managed over the last two years to restore a positive operating management. Three years ago it was a negative financial year for the airline, also witnessed by the loss of the year, transformed into a profit in the following two years. Also the NFP is showing an improvement as well as the revenues that we see in the graph on the right, constant in the last two years, but extremely low in 2016. This year which was drastic in our analyzes, coincides with the year in which Blue Panorama is succeeded in exiting the extraordinary administration, to then be taken over by the Uvet Group as we have previously read. The data of the last two years therefore highlight an improvement in the company's fortunes after its sale.

Fly Ernest

The Fly Ernest is also known commercially under the name of Ernest Airlines even if its official name is Ernest S.p.A. It is a company born recently, that is in 2015, in Milan, with the aim of focusing on a low-cost business model operating towards Eastern Europe mainly to Albania, Ukraine and Romania. In addition to the seasonal route that connects Milan with Ibiza, the aim of the Fly Ernest administration is to expand the fleet, strengthen collaboration with Italian tour operators and open new international routes, such as the one with Russia.¹³²

¹³¹ <https://www.blue-panorama.com/aboutus>

¹³² <https://flyernest.com/it/chi-siamo/>

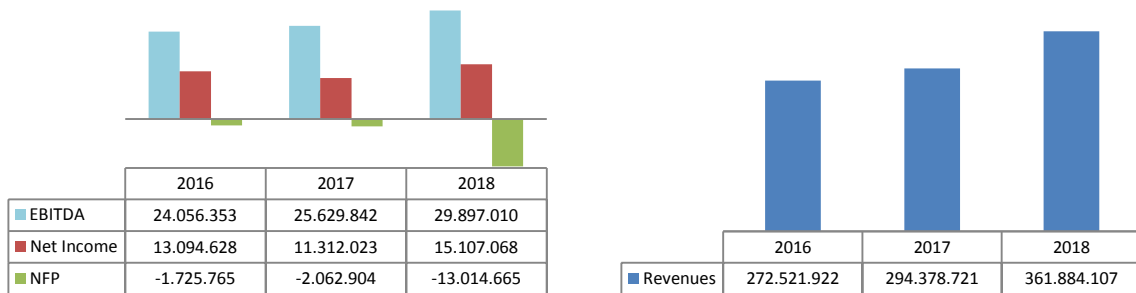


For Fly Ernest there are, as we mentioned earlier, data availability only for the last two years. All the data in the graph on the right show negative numbers, indicating that both the operating management and the profitability of the year report a negative result, with subsequent difficulty to cover the financial debt shown by the Net financial position. In the other chart we see that revenues are low but they have increased over the last year. However, this increase in revenues does not correspond to the improvements in margins shown in the graph on the left, as these revenues are also correlated with a high increase in production costs, specifically for raw materials and services, and an increase in total assets. Also the number of employees has almost doubled in 2017. These numbers are obviously the result of the initial investments due to tackle to set up the newly formed airline, which has very clear strategic objectives and wants to immediately raise the bar to compete better with its direct competitors. Despite its current small size, the company wants to expand slowly and gain more and more passenger approval.

Neos Air

This airline was founded in 2001, in Somma Lombardo (VA). Its main hubs are in Milan - Malpensa and Verona. Since 2004 it has been fully acquired by Alpitour and at the same time it has begun to cover international routes. The services offered concern its close collaborations, first of all with Costa Crociere, where Neos takes care of transporting passengers to the cities of the main ports of departure or arrival of the ships. Furthermore, since 2016 it has started to connect Italy with the Chinese territory. Neos carries out technical

maintenance on its own aircraft, with its own personnel, at Malpensa. ¹³³



The data in the graph on the left show a positive EBITDA for Neos indicates a good trend in the operating management. In fact, the net profit over the last three years is still positive, evidencing a good profitability for the company in the last three years. The profit is in profit from the first year of activity. ¹³⁴ On the other hand, the NFP reports a difficulty to cover the financial debt and pursues a negative trend, with an increase in the considerable negativity, which occurred in the last year. In the graph on the right we can see Neos Air's revenues, which instead follow a growing trend, with a significant increase over the last year. The company invests in the acquisition of avant-garde aircraft and also the merit of the positive results is also due to the fact that it is at the service of the brands of its group that is Alpitour, from which about 50% of its passengers come. ¹³⁵

3.2.2 The comparison

After analyzing the relevant data of the previous companies, let's now develop a comparison of the three companies that, due to their size and availability of data, allow a fair comparison in order to better analyze the Italian situation regarding civil aviation, about the airlines operating on the market. The three companies chosen are Air Italy, Air Dolomiti and Neos Air.

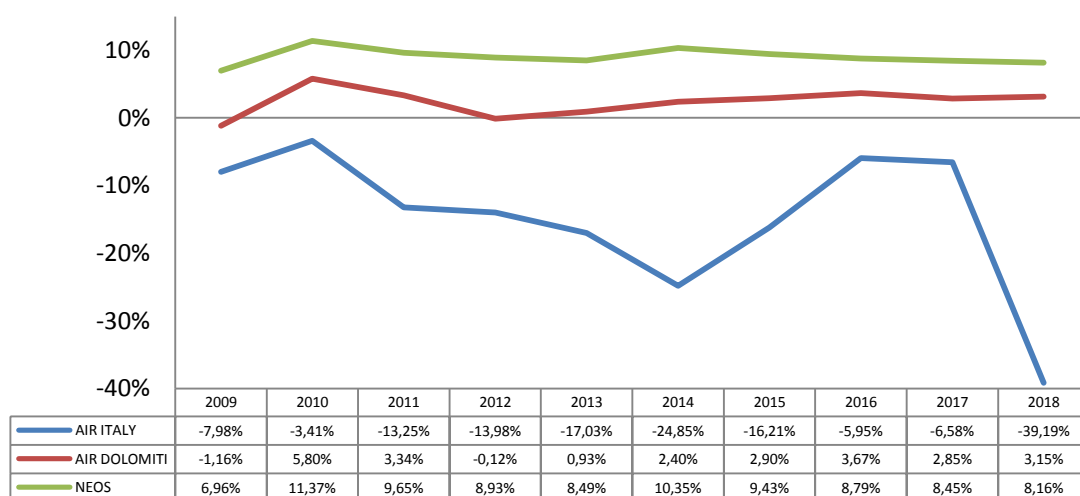
For the comparison we will use some of the profitability indices, namely EBITDA margin, ROA and ROE. After this we will first investigate the debt / equity financial indicator and finally the productivity index which reports the revenues for employees. The reported data will allow us to make a wide comparison of the last decade that is from 2009 to 2018, in financial, economic and productivity terms of the three selected air carriers.

¹³³ https://www.neosair.it/it/storia_neos

¹³⁴ <http://www.guidaviaggi.it/notizie/183227/neos--brillano-i-conti-2016>

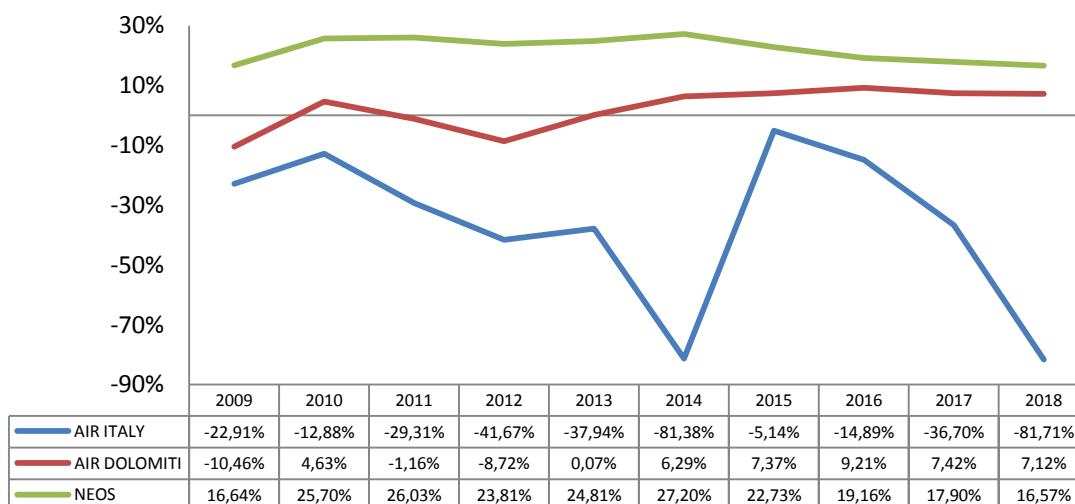
¹³⁵ Ibidem

EBITDA margin

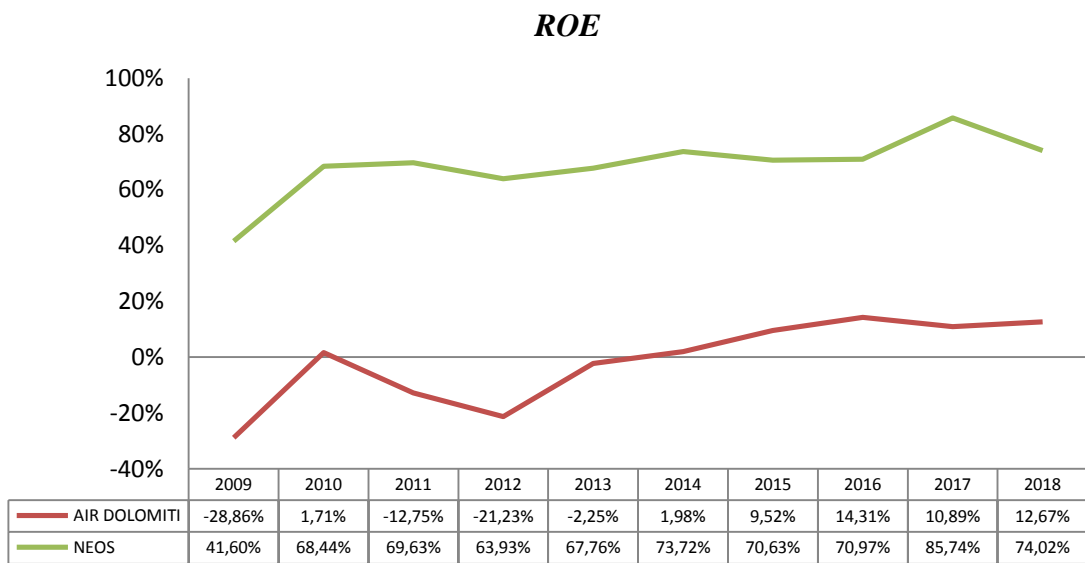


This index allows us to understand in this chart how the revenues have behaved with respect to the management costs of the three airlines. The data, in percentage, shows us the profitability of the airlines. We can see that Air Italy is consistent with the negative data analyzed in the previous paragraphs and that its profitability has extreme difficulty in expressing itself. After the recovery highlighted after 2014, the air company shows a strongly declining trend, with a drastic result in the last year, due to the causes we analyzed in the previous pages. Air Dolomiti does a little better, having some room for improvement in recent years. Neos Air instead is, among the three, the airline that most manages to stay in line with what should be the goal of every company, namely to keep the EBITDA margin as high as possible. Such positive numbers certainly derive from the skills of Neos managers to reduce the costs of running the company.

ROA

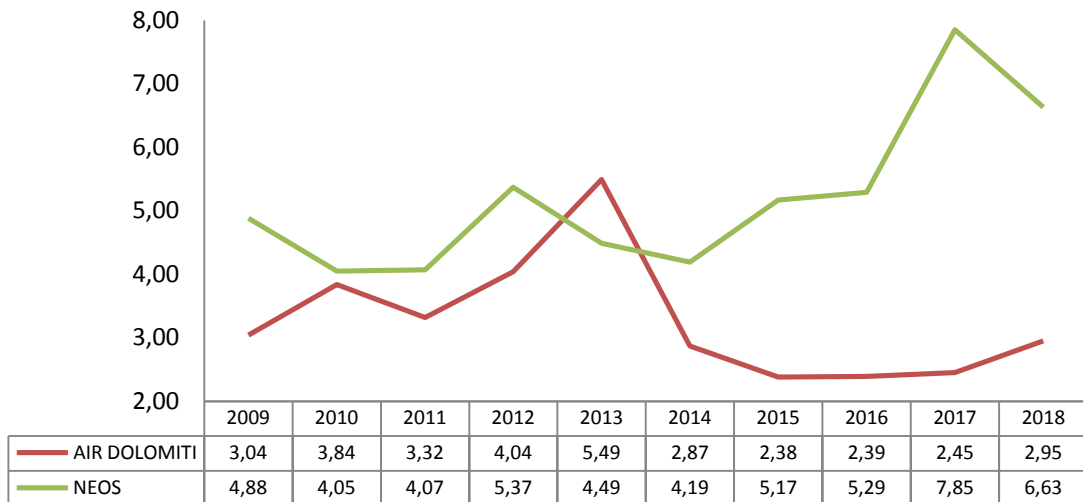


This profitability index allows us to understand the return on corporate assets, and is useful for comparing, through the data expressed as a percentage, of companies operating in the same sector, as in our case. We can see from the graph that Neos Air is the airline that manages to create greater value with the use of its assets, even if the data show a slight decrease after the peak that occurred in 2014. The airline that instead managed to recover and to report a rather constant increase in ROA is Air Dolomiti, which in any case does not like Neos to make the most of its resources. Also in this index we note the terrible situation of Air Italy, which in the last year reconfirms a ROA that slightly exceeds, in negative, what had been its minimum in this decade, namely that of 2014.



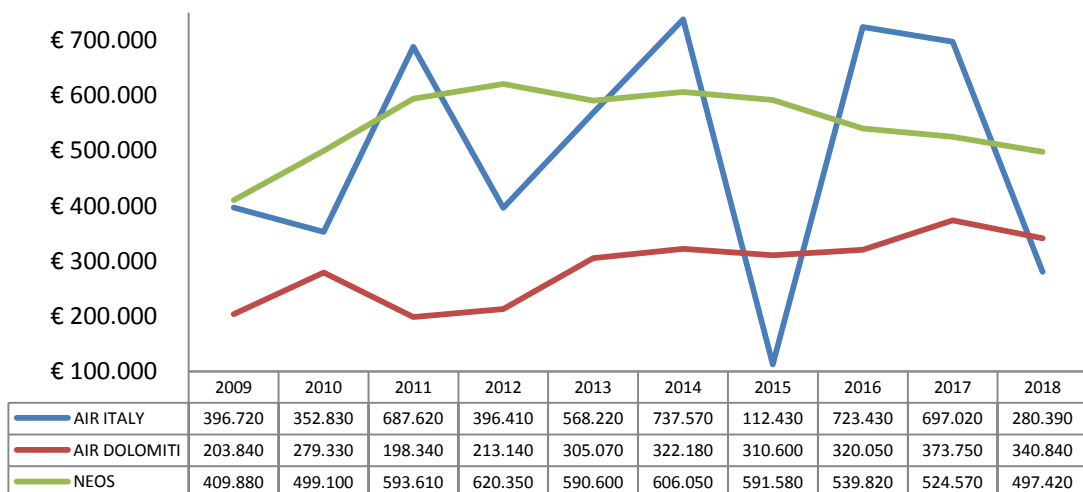
The last profitability index that we analyze is the ROE. This index measures the return on equity. As can be seen from the chart, data relating to Air Italy are missing, since the data was not significant for the balance sheet deficit of the airline. Therefore, analyzing the two remaining air companies, we can see that the overall cost-effectiveness of managing its resources smiles on Neos, which manages to maintain excellent data that is almost constant. Instead, the capital conferred has certainly made less for the members of Air Dolomiti. Both characteristic and financial and asset management, as demonstrated by the ROE, shows us positive data consistent with the other profitability ratios demonstrated just now for Neos. The same consistency with the previous data can be found in the numbers of Air Dolomiti, which managed to bring the data back to positive, after the problems highlighted up to 2014.

Debt-to-equity ratio



As you can see from the chart, also in this case, again due to Air Italy's patrimonial deficit situations, data have only been taken from Air Dolomiti and Neos Air. This graph allows us to compare the total liabilities of the two airlines with their equity. A high debt on equity index indicates that the airline is not capable of generating enough cash on its own to meet its financial obligations. This graph reveals that behind the positive performances of Neos, of which we have been able to see in the previous graphs, there is a high recourse to debt, especially in the penultimate year of the analysis, while now the situation is stabilizing. Air Dolomiti, on the other hand, showed its peak in 2013, and after a positive downward trend, the debt-to-equity ratio is slowly rising again from the year. Between the two companies analyzed, Air Dolomiti finances its operations better with internal sources rather than with external debts, unlike the management of Neos Air. In the latter company, equity is not enough to cover the debts of the company.

Revenue per capita



This index, which assumes greater importance for companies such as airlines with high fixed costs, allows us to analyze the productivity of the three airlines, especially with regard to the total value of production divided by the number of employees working for the air company. In this chart we note that Air Italy has had a very seething succession of this productivity index, reaching the minimum in 2015 and reconfirming almost that figure in the last year. Although with a high average compared to the other companies examined, Neos Air seems to have slightly lowered this index since 2014, unlike the almost positive trend shown by Air Dolomiti although with a slight decrease in the last year. Airlines that have shown higher values than this index show better efficiency.

3.2.3 Final considerations

In summary, we can affirm that the profitability of Air Italy has great difficulty in expressing itself and does not help at all the capital deficits that have not allowed us the comparative analysis with the other airlines. All the analysis confirms the causes that led Air Italy to critical situations last year, which we discussed in the previous pages. As we have seen, these causes have canceled last year the signs of a slow recovery highlighted in the graphs after 2014. On the other hand, the Italian-German Air Dolomiti, in recent years, has margins for improvement, even if the ROA has shown us that, unlike Neos Air, it fails to make the most of its assets. To break a lance in favor of Air Dolomiti, the graphs have depicted that this company is better able to finance its operations internally. Finally, we have seen that Neos Air, among the three airlines examined, is the one that manages to demonstrate a better managerial ability capable of highlighting good margins of profitability. Furthermore, this airline is able to create the greatest value with the use of its assets with a good and constant overall economy of its management. After high appeals for debt, the situation of Neos Air appears to be stable and finally the airline has a high average in productivity, demonstrated with the per capita revenue index.

Chapter 4

The evolution of civil aviation and M&A strategies

This chapter is aimed at analyzing the evolution of the civil aviation market and contextualizing the Italian situation. The aviation market was born in turbulent periods of history. Having settled better after the end of the Second World War, it has had to adapt constantly, evolving continuously both from an economic and regulatory point of view. First, the chapter will argue about the analysis of the interest of the various governments in the civil aviation and European Union industries. This short analysis will allow the reader to understand the advantages and benefits of these political interventions in the field of civil aviation, intended in the interests of the economic health of their own countries. Then, after the discussion on the regulations and political discussions that took place during the evolution of the civil aviation industry, we will continue by describing the technological advances to which the airlines have had to adapt in order to maintain their market share and be able to keep up with times. The continuous analysis of the evolutions would not be complete if we did not then mention the changes in safety, which have allowed the aircraft, today, to earn the reputation as the safest means in the world. While we first started talking about the economic changes in this sector, we will continue the analysis of the evolution by arguing to what extent the services offered by the airlines have changed. The latter have had to face each other and compete with new competitors and since the aeronautical market has seen the gradual increase in digitization, many airlines have not been able to keep up with these modern competitors. In this regard, we will read a brief parenthesis, where we will talk about the case of Thomas Cook.

After the analysis of the evolutions, the reading of the chapter will continue analyzing what was a common defensive measure adopted by the main airlines, i.e. those of mergers, acquisitions and alliances. Specifically we will argue about the advantages of these strategies and also about those of the policies implemented in the field of codesharing and virtualization that have allowed the airlines to be able to respond to competition and not to miss routes and above all customers. After that, the chapter will continue with a paragraph that analyzes the pros and cons of the merger and acquisition strategies, increasingly implemented by the airlines.

4.1 Government interest in civil aviation

Since the years after the Second World War, many nations, step by step, have begun to want to flaunt their power as a nation, launching them into the civil aviation market. The main governments in that historical context were already at the tables of the ICAO Council, already in its early years, where they demonstrated a fixed permanence in the decision-making tables. The pioneers of these decision-making tables include Germany, Italy, the United Kingdom, France, Russia, China, Japan, Australia, Canada and the United States of America.¹³⁶ Even the European Union has always shown interest in aviation. The public interest, in the civil aviation market, is defined as the need to provide reliable flights with regular frequency to citizens, covering all areas of the country, offering costs that allow both an economic return for the companies and fair prices for service users. (Sochor, 1991)

The European Union has also moved recently to keep European civil aviation standards high, also improving the conditions of workers operating in the aeronautical industry and always aiming to protect passengers, also demonstrating the desire to promote technological innovations and digital while maintaining high environmental standards.¹³⁷

Civil aviation requires an order considering that the aviation industry requires operating in a very competitive international context; this order corresponds to a political one that allows a systematic and sustainable development of the civil aviation market.¹³⁸

All aviation development plans should have features¹³⁹ similar to its development and keeping the nations own with domestic and international competitors. First of all, the strategic plans implemented by the governments must cover a long-term time horizon; in addition, these strategies must concern regulatory and legal definitions, policies aimed at liberalization, defining markets, international agreements and growth prospects. Finally governments should also implement policies of privatization to regulate private access to various investments, as well as infrastructure such as airports and airlines.¹⁴⁰

We have seen in what measures national policies have taken an interest in their own airlines and how, on the other hand, airlines too had an interest in depending on their governments, both for economic aid rather than strategic aid; just think that international routes are regulated by governments.¹⁴¹ A good political direction, in this sector, must be able to involve good action plans even with sectors related to those of civil aviation, with which there

¹³⁶ Sochor 1991, 58-59

¹³⁷ Tomová and Dudáš 2018, 17

¹³⁸ Itani et al. 2015, 42

¹³⁹ These characteristics are identified in the study of Itani et al. 2015, 44

¹⁴⁰ Ibidem

¹⁴¹ Sochor 1991, 183

is a sort of economic interrelation, such as tourism and that of trade.¹⁴² This interest has yielded benefits in economic growth, employment and technological progress as well as progress in terms of business innovations, bringing all of this into an improvement in European competitiveness at world level.¹⁴³

4.1.1 Changes in airline profitability

At the beginning of this thesis we were able to know the questions about government subsidies and agreements between governments over the years. These actions have led airlines to incur lower costs. The facts then evolved until the liberalizations changed market conditions leading to a new scenario. In this scenario, privatization, competition and new business models were favored.¹⁴⁴ All that these changes had not yet foreseen, however, was a consequent change in the profitability of the sector. In fact, we have had more and more airlines vulnerable to external shocks; among these we recall the shocks of 11 September and the fluctuations in the price of fuel which led to consolidations between airlines, company restructuring, establishments and bankruptcies of new companies.¹⁴⁵ In addition to the shocks dictated by the external environment, the airlines have shown technical inefficiencies also due to the different strategies adopted by the airlines, the different routes served or in the historical resources.¹⁴⁶ Only as a result of these factors, following the poor financial performance of many companies despite the increase in air traffic, the profitability of the airlines became a central issue for the civil aviation industry.¹⁴⁷

Without so much government aid, airlines have had to learn to rely on the technical and operational management of their business in order to change their productivity.

4.2 Evolution of the civil aviation market

In the first chapter of this thesis, we discussed how aviation business models have changed and, moreover, we have also often talked about how the civil aviation market has changed and how the laws and rules of this market have influenced this sector. In the following pages,

¹⁴² Itani et al. 2015, 43

¹⁴³ Tomová and Dudáš 2018, 17

¹⁴⁴ Scotti and Volta 2017, 1

¹⁴⁵ Barros and Couto 2013, 11

¹⁴⁶ Barros and Couto 2013, 13

¹⁴⁷ Scotti and Volta 2017, 1

instead, we will go into more detail on the evolution of aeronautical transport; we will do this mainly by analyzing the historical and regulatory history of air transport. The analysis will continue highlighting the technological changes that have led engineers and governments to close collaboration and then continue with a brief assessment of the changes that have occurred in the field of aviation safety. After that, we will understand to what extent the amount of services offered by airlines has changed, making a brief reference to the recent case of the Thomas Cook.

4.2.1 The first historical changes

We understood that owning a national airline was a source of pride for every government, since it was a common idea that this industry reflected the economic health of nations. In the period immediately following the Second World War, national politics and civil aviation were two concepts that traveled on the same tracks, difficult to separate. It was this union of interests that was negotiated at the preparatory table for the 1957 Treaty of Rome¹⁴⁸ with whose signature the European Economic Community was established. Since, as mentioned above, this sector reflected the economic strength of each state, in a delicate period like the post-war period, each state wanted to make its voice heard about this market; the consequence was that almost every state in Europe had already felt the need to set up its own national airline. Necessarily, this sector was to be discussed in the political tables of the time, and one of the first requirements that arose was to regulate this sector, immediately trying to get the various nations to cooperate in the regulation of the air transport industry. However, each nation had its own point of view in this regard; some countries wanted the protection of a single European body that regulated the aviation market while other nations preferred that each of them had its own regulatory body. So, we come to 1953 when there was the proposal to set up a meeting in order to propose the establishment of a single body to deal with communication between the various governments. The Committee of Ministers and the ICAO (International Civil Aviation Organization) took part in this conference. As you can guess, it was a fundamental conference that laid the foundations for a long political journey on the regulations of the civil aviation market in Europe. The conference held in Strasbourg in 1954 was entitled the Conference on Coordination of Air Transport in Europe. After careful discussions, the bodies present at that meeting gave birth to the ECAC (European Civil

¹⁴⁸ Sochor 1991, 187

Aviation Conference).¹⁴⁹ Therefore, the establishment of this body coincides with the birth of cooperation between the various European nations in the field of air transport. The ECAC mainly carries out tasks such as harmonizing civil aviation policies between states belonging to the European Union and promoting different political strategies between these states. Since its foundation, ECAC has aimed to establish a safe, effective and durable air connection system with particular sensitivity to safety, security and environmental issues.¹⁵⁰ After this introduction, in the following years, the change towards which the aviation sector will approach is increasingly felt, with the application of community laws. It was a change to which the Member States of Europe had never been accustomed since in the last years there had never been a certain answer on the application or not of these community rules. Thus, after the establishment of the ECAC, there was now the certainty of following the directives and recommendations that this body issued, and Member States had to implement such decisions. Now this reality was to be considered mandatory by individual governments, in making decisions about their flag companies.

Having now its own regulatory body, Europe then succeeded, in 1988, to apply rules to increase competition from air transport and to lower European tariffs, among the highest in the world, in order to make the European market more competitive in a climate of deregulation, which we discussed in the previous chapters of this thesis. The measures just mentioned offer an increase in the flexibility of the tariffs that the airlines can offer and, consequently, the possibility of accesses to new markets is offered.¹⁵¹ National barriers are breaking more and more and now European airlines are also allowed to make routes in countries other than their own, even if these are already served by the national flag carrier of that country. This big change will modify the way business is done by airlines and roll out the red carpet for low-cost carriers. Thus the common concept of the term "domestic market" that had existed up to that point is extended, thus widening the boundaries and allowing all companies of the member states to work throughout the European territory.¹⁵²

4.2.2 Technological evolution

Alongside the political aspect that has led the aviation market to considerable changes, it is also worth discussing another aspect that has gone hand in hand with it, namely the

¹⁴⁹ Sochor 1991, 188

¹⁵⁰ <https://www.enac.gov.it/organismi-internazionali/comunitari/ecac>

¹⁵¹ Sochor 1991, 189

¹⁵² Ibidem

technological aspect. Immediately after the end of the Second World War the various governments were full of industries and sectors to be revived. After the horror of the war, the governments tried to revive the fortunes of their own nations and of their own people; the engineers were called to considerable efforts and, since all the states wanted not to disfigure compared to the other national powers, the governments invested huge resources economic for the reconversion of their own industries. With regards to the civil aviation industry, engineers and governments, through their own officials, often worked together to design and build ever more powerful and therefore more efficient aircraft engines. There was always the constant goal of increasing the speed of the aircraft of its national airline and therefore of working not only on the power of the engines, but also on the design of the aircraft. Furthermore, the concomitant objective was also to increase the capacity and size of aircraft to carry more passengers and thus maximize transport profitability. The pace of technological innovation, however, slowed down after 1970 because the attention focused more on short and medium-haul routes, to the detriment of long-haul ones, thus maximizing efficiency.¹⁵³ What did not slow down was the constant search for increases in aircraft capacity.¹⁵⁴

As can be well deduced, all these technological events have brought numerous benefits, impacting positively on the operating costs of the airlines. The new technologies, on errors of the past, have constantly improved, benefiting the safety of the aircraft and reassuring the passengers who increasingly used this type of vehicle for their journeys, both for pleasure and not. Nowadays, technological changes have become more and more, over the years, within the reach of all. Governments always invested large sums to make each of their flag carriers shine. As a result, the high technology and rapidity of the changes have also led to disadvantages for these companies. They were producing and traveling in the skies with ever larger and faster aircraft, often in an attempt to respond to their competitors; this led to a logical downward pressure on load factors.¹⁵⁵ It was precisely in this context that, in addition to merely technological changes in the market, financial changes also occurred, above all in terms of services offered by aircraft manufacturers. In other words, it was the latter who raised capital on behalf of their clients, referring to national or foreign banks.¹⁵⁶ It was a new system adopted by the manufacturers of aircraft that were able to grab more customers and move them away, consequently, from their competitors. To make the difference, from the point of view of the buyers, that is of the airlines, were the conditions of the financing that the

¹⁵³ Doganis 2013, 3

¹⁵⁴ Ibidem

¹⁵⁵ Doganis 2013, 4-5. Later Doganis, on the same page, explains how the need for financial new capital investments was also felt; not by chance at the same time as the reduction in operating costs it was possible to notice the increase for the cost of capital for the new aircraft that were used.

¹⁵⁶ Doganis 2013, 6

producers offered, and therefore it was not only the type of aircraft that put the airlines in a position to choose whether to contact a supplier rather than another. We therefore arrived in a socio-economic context that saw the establishment of a new service offered by banking consortia. They also purchased aircraft on their own, with the intention of renting them to the various airlines.¹⁵⁷ However, this mechanism did not always bring benefits to the market. Aircraft manufacturers have had to grant loans, even in the darkest periods for airlines, in order to stay on the market and not sell customers to their competitors, in such a difficult market. An unproductive circle was created through which the various airlines felt confident in investing, given the advantageous conditions offered by the producers, leaving second the assessments of the impacts of this investment. The results of these policies were not slow to arrive; in the early 1980s, there were highly indebted airlines on the scenario of commercial aviation.¹⁵⁸

4.2.3 Safety evolution

Everyone knows that airplane is the safest way to travel, but the high level of safety available to today's aircraft has certainly not been the result of chance. The technology has moved constantly over the years, and continues to do so even today, to allow the giants of the sky to fly and make passengers and crew travel in total safety. Unfortunately, as one can well guess, these advances in the field of security have been learned after various accidents and the fruits of progress and of the technologies that we take for granted today on board of aircraft, have cost lives in the course of history. Alongside the technological innovations, decisions and political choices have also had to be made in order to better regulate the traffic and the air discipline in order to ensure the most appropriate safety standards on board the airplanes.

The first safety regulation concerned the hijackings. However, this legislation came on tiptoe, in the sense that the politicians of the time did not want to create a climate of tension or alarm in the minds of passengers. One could see the hypothesis of hijacking as something not imminent for many airlines; therefore it was in the minds of many that these security rules were not fundamental. In order not to create, as mentioned above, fear and tensions, a

¹⁵⁷ Doganis 2013, 6. In this regard, the author adds that these consortia were facilitated from a tax point of view and, moreover, this group of banks did not lose ownership of the purchased aircraft, so much so that, as we have said, they only rented them; this constituted a guarantee, as the author reminds us, if the resale value of the aircraft had soared.

¹⁵⁸ Doganis 2013,7. The author adds that, in those years, the debt / capital ratio for airlines had increased and therefore become unsustainable. As a result, a drop in air traffic was enough to enable airlines to no longer be able to repay their debts.

signature was signed in Tokyo in 1963 for a convention, where minimum safety requirements for passengers and crew were sanctioned and rules on possible hijackings.¹⁵⁹ Only five years later and unfortunately, after numerous hijackings, ICAO in its assembly realized that the convention drawn up in Tokyo was inadequate and, for this reason, new safety regulations were sanctioned in Buenos Aires in 1968.¹⁶⁰ Despite the hijackings that took place, only after 1970 did governments begin to implement effective security measures.¹⁶¹ The need to have more specific and more stringent rules was soon felt, as can be imagined. Immediately afterwards, the new regulations required that each Member State establish its own security program on civil aviation, giving governments the power to ask airlines to take off from their airports to follow their own security protocol.¹⁶²

From here on, over the years, it has continued with increasingly modern and up-to-date rules, most of the times, whenever there are air accidents. Immediately after the events of which we have just argued, there have been new striking regulations and protocols in the field of aviation safety, becoming increasingly restrictive in order to protect safety on board the aircraft.¹⁶³ Checks on baggage with X-ray equipment were introduced as early as the 1970s. This technology, nowadays discounted, was adopted as an optional measure at the time. Only after the disgrace of the Lockerbie massacre in 1988, the extent of X-ray checks became mandatory. Going forward over the years, we arrive at the sadly known date of 11 September 2001. There were many measures taken after the terrorist attack in the USA, after which they began to meticulously control hand luggage and liquids inside them (from 2007 maximum 100 ml for each container, and kept in transparent envelopes), for each single person who should board the aircraft.¹⁶⁴ These measures, as we said at the beginning of the paragraph, derive from new safety standards implemented after various tragedies and shattered lives.

Among the various legislative bodies, in Europe, the European Parliament intervened, regulating the discipline of security in the field of civil aviation. In order to protect its citizens, the European Parliament imposes sanctions and controls to verify the correct

¹⁵⁹ Sochor 1991, 144

¹⁶⁰ Ibidem

¹⁶¹ Sochor 1991, 145. On the same page the author reports a terrible fact that there were 319 hijackings between 1969 and 1972. Immediately after Sochor analyzes the causes and finds them mainly in bureaucratic inertia, lack of long-term vision and for the cost.

¹⁶² Sochor 1991, 146. In this regard, the author recalls that the security program was intended to protect "baggage, cargo and mail, prevention of unauthorized access to the aircraft and procedures for crew and personnel." Furthermore this program had to contain protocols for inspection and screening of passengers and baggage.

¹⁶³ The sequence of security techniques introduced refers to the article of Momigliano A, 2017 in <https://www.rivistastudio.com/sicurezza-sugli-aerei/>

¹⁶⁴ Momigliano in his article he recalls how in 2001 a terrorist managed to board a Paris - Miami flight with explosives concealed in his shoes.

implementation of the security protocols issued. The European regulatory framework is also based on what was decided by ICAO, namely that each Member State is responsible for the safety of flights departing from its territory. Furthermore, the European Parliament expressly wishes that "passengers, crew and baggage must be subjected to checks prior to boarding; even goods, mail and on-board supplies must be subjected to checks before being loaded on board, unless they are been subjected to appropriate security checks". Finally, Parliament gives Member States the right to apply more restrictive measures in terms of security, should governments deem it necessary.¹⁶⁵ The provisions of the European Parliament refer to all the infrastructures, phases and operators involved in the chain of the air transport sector. Finally, the European Parliament also leaves the right to each Member State to designate a domestic body responsible for monitoring the implementation of these provisions.¹⁶⁶

To date, however, it can be said that it is difficult to think of a guaranteed security situation totally referring to a practical point of view of the operations, both as regards the operating costs to be incurred and the feasibility of flight operations and controls.

4.2.4 Evolution of the services offered

The expansion of the service offer and the differentiation in the services offered, as we will soon see, did not exclusively concern aircraft manufacturers. Over the years, the concept of air travel has changed from the point of view of passengers. The hours spent in flight were no longer seen as mere hours of waiting for arrive at their destination. The demand for airline tickets is related to applications for other activities such as events, business trips or vacations¹⁶⁷ that can put passengers in a position to choose whether to buy a plane ticket. Some airlines, over time, with the progress of technological and market changes, have felt the need to expand vertically, expanding the services offered both on board and differentiating themselves for the quality of the additional services offered to the passenger, once it reaches the desired destination.¹⁶⁸ All this also allowed being able to "sell" better the tickets of his own company, making himself preferred over the competitors, also changing his marketing policies and selling a ticket in a different way than in the past. In other words, it was no longer

¹⁶⁵ These three points refer to the provisions of the European parliament, referred to <http://www.europarl.europa.eu/factsheets/it/sheet/132/trasporto-aereo-sicurezza-dell-aviazione-civile>, Coito E., 2019.

¹⁶⁶ The European Parliament note goes on to state that each Member State must also draft and implement a "national civil aviation security program" and a "national quality control program".

¹⁶⁷ Doganis 2013, 19

¹⁶⁸ As Doganis tells us, these differentiations concerned the expansion in other aspects of the journey such as hotel services, travel agencies, tour operators or car rentals.

enough to sell a ticket as an end in itself, but from that moment, many airlines are encouraging receivers of the promotional message to reach a particular tourist destination rather than a certain event, and by passing, almost in the background, the sale of a mere ticket to travel with one's own company.¹⁶⁹ On the other hand, even the services offered on board made it possible to differentiate oneself from its competitors, and therefore, each airline attempted to offer a more courteous service and a higher quality of food on board its aircraft. The economic changes in this market, with the subsequent increase in the range of services offered on board, but above all on the ground, have therefore led to an effect for which the air market had not been designed and which therefore led the airlines (and their governments in many cases) to considerable economic efforts to try to keep up with the times and not risk losing market share in what was becoming an increasingly competitive sector. If a few years ago the place on a plane had few differences compared to that of another airline, all of a sudden the services offered acted as drivers for selecting passengers. Therefore, this market of relationships was characterized, on the one hand, by the static nature of the mere "seat" which had little to differentiate itself from the one of the competitors and, on the other hand, from the dynamism and flexibility of the transversal services offered by the airlines.¹⁷⁰ The first consequence of this change is the need that arises for the airlines to invest more to differentiate themselves, on pain of a gradual exclusion from the acquired market shares.¹⁷¹ The second consequence was the almost simple entry into the market of incoming or entry companies on routes for existing competitors, given the then shortage in the regulations concerning entry barriers. We can well understand how the economic choices on the part of the airlines must be dictated by two facets: the first is the *heterogeneity* of the services offered and the *homogeneity* in mere air transport. These facets have often translated into a constraint for the various airlines they have brought "*in apparently contradictory decisions and action by airline managements*" (Doganis 2013, 20).

4.2.4.1 The case of Thomas Cook

To conclude, let us add the discussion of a recent news story concerning the United Kingdom that is the British tour operator giant Thomas Cook declared bankruptcy. This event is also the

¹⁶⁹ Doganis 2013, 20

¹⁷⁰ Doganis 2013, 20. From this reference we will also be inspired by the consequences of this impact, which will be discussed in the following lines.

¹⁷¹ As Doganis mentions, a great deal will also be invested in the quality of food, in the professional quality of flight attendants and also in the offer of greater frequencies in air services, as well as in the increase in investments in advertising and in the purchase of more and more modern aircraft.

result of the successive changes in the aviation market and how low-cost and online services, increasingly digitalized, have changed the rules of the game, bringing even big giants in the sector into the abyss. Being a great tour operator, the 100-year-old Thomas Cook would have had to suffer only the direct competition of his online competitors. Instead, jointly responsible for its bankruptcy, they are also the low-cost companies that we have repeatedly mentioned in the preceding paragraphs. In fact, these companies, with the offer of integrated services, such as flight and hotel, allow the customer to easily choose the accommodation in which to make their stay from home, eliminating in this the need to have to turn to a tour operator. Impossible not to notice the influences that the changes that are making of the business in this sector. This sudden digital change challenged everyone and only those who were able to race fast could afford to confirm the already occupied market share, for example by reacting by specializing or by retaining their customers.¹⁷² In addition to the direct competition of online tour operators, we should dwell, for the purposes of our discussion, on the impact that low-cost airlines have had, acting as cross-border competitors. It is now common to visit a low-cost airline website and, after purchasing your ticket, you can simply purchase a series of integrated services, ranging from accommodation for the stay to the rental of a car with which move during your stay in the desired destination. Precisely with regard to these destinations, it should be added that these airlines have reached more and more destinations over time, expanding their network of flights and thus allowing them to move to new destinations, which until a few years before were exclusive of charter flights (since little for companies that operated long-haul flights). In this way, by grabbing these routes, the low-cost companies could also expand the sales of secondary services (hotels, rental cars) in these new cities that until recently were exclusive to large tour operators.

4.3 Merger, acquisition and alliance strategies

As we have already read in this thesis and as we will be able to read later, the aviation sector has had to evolve due to the ruthless increase in competition dictated first by market deregulation, and then by the new aggressive business models of the new competitors of which we talk in the first chapter. Among the various responses that the aeronautics industry has had to show there have been improvements in internationalization strategies, increasing mergers and acquisitions, and strategic alliances even of global airlines.¹⁷³ These maneuvers

¹⁷² <https://www.ilsole24ore.com/art/fallimento-thomas-cook-perche-tour-operator-globali-sono-criasi-ACIIClm>

¹⁷³ Castiglioni et al. 2018, 134

were the answers chosen by many airlines to respond to heavy competition, exploiting synergies and all the legal and economic advantages that company mergers bring.¹⁷⁴ It is also true that not all airlines are integrated with global partners, even if they use strategies similar to those of other airlines allocated in global groups¹⁷⁵, such as the codesharing strategy, which we will see in the next paragraph. Not surprisingly, however, these mergers can bring some disadvantages, including: limitations on short regional routes, tariff increases, potential conflicts between shareholders, stringent antitrust controls, increased financial resources and limitations on making independent strategic decisions.

In addition to the analysis of macro-alliances and large groups of international airlines, it is interesting to discuss the various operational strategies implemented in the world civil aviation market. We can distinguish the operational strategies adopted by distinguishing them in three macro-areas, namely that of national operational strategies, global ones and finally regional ones.¹⁷⁶ In addition, to date there are three global alliances i.e.: *Star Alliance*, *Sky Team*¹⁷⁷ and *Oneworld*. These three macro-alliances have a passenger volume that is around 60% of the entire aviation market and includes 74 members.¹⁷⁸

With regards to these strategies, we can add that they are direct consequences of the various liberalizations that occurred in the world aeronautical industry. The commercial strategies adopted, different from the mergers and acquisitions of competitors and also different from global alliances, mainly concern: orientation towards niche markets, especially if with lower costs; offer discounted tickets and develop hub-and-spoke networks.¹⁷⁹ These moves are implemented by the airlines to allow them to better face free competition, bypassing the limits on the routes to be offered and the costs to be incurred, allowing for a more flexible offer of fares.¹⁸⁰

The work of the authorities guaranteeing free competition, following the emergence of these alliances, which can also be understood as a prelude to corporate mergers, has considerably increased.¹⁸¹ On the one hand, these authorities consider these agreements useful for the benefit of reducing market fragmentation; on the other hand, they consider it right to intervene

¹⁷⁴ As can be read from the lines of Castiglioni et al. 2018, 135, these advantages are: allow airlines to access new routes and destinations and avoid legal or regulatory barriers, obtain cooperation benefits, due to economies of scale and can lead to an increase in airline traffic and therefore to an increase in the load factor and operational efficiency of the airlines. Furthermore, the author adds that these advantages also affect passengers as they lead to flexible schedules, increased flight frequencies, improved baggage handling services.

¹⁷⁵ Castiglioni et al. 2018, 136

¹⁷⁶ This distinction about strategic distinctions goes back to the study of Castiglioni et al. 2018, 138-140

¹⁷⁷ SkyTeam is the global alliance to which Alitalia belongs.

¹⁷⁸ Castiglioni et al. 2018, 136

¹⁷⁹ Min and Joo 2016, 100

¹⁸⁰ Ibidem

¹⁸¹ Alderighi and Gaggero 2014, 30

to ensure healthy competition on certain routes ¹⁸², to protect passengers. Finally, these enforcement must ensure that the relevant laws are respected, ¹⁸³ therefore guaranteeing these alliances provided that the passengers of the flights are not damaged, allowing such agreements if it is not foreseen an increase of the prices of the tickets and the reduction of the competition. ¹⁸⁴ Furthermore, the airlines, before entering an alliance, must evaluate well all the possible scenario that could occur because being part of this alliance implies having to follow new regulations and stringent rules of conduct. ¹⁸⁵ An airline that enters an alliance strategy must also carefully consider the fact that it does not have to depend too much on the partner about the continuation of its flight activity. If there were a change in the conditions of the alliance, high specialization and high dependency, they would put a strain on the economies of the airline. ¹⁸⁶

4.3.1 Codesharing and virtualization

Codesharing is a very common strategy used today by most airlines. Specifically, codesharing is "a mode of commercial agreement between two or more carriers for which a company, on specific routes, places its own code and sells seats on flights operated by the partner carrier". ¹⁸⁷ In this way the effective use of the aircraft is optimized, allowing a double advantage for both the airline and passengers. By analyzing this type of strategy better we can distinguish two types of codeshares, namely the complementary and the parallel ones. ¹⁸⁸ The formers allow an airline to be able to access routes other than those it normally serves. ¹⁸⁹ Instead, parallel codeshares are used to increase frequency on routes already served by the company. The gradual and penetrating increase in this practice has made it possible to broaden the concept of virtualization, contextualizing it in the aeronautical market. In this context, the term virtualization indicates that a large part of the routes offered by a certain airline are no

¹⁸² Ibidem

¹⁸³ First section of Sherman Antitrust Act and Art. 101 of European Treaty.

¹⁸⁴ Alderighi and Gaggero 2014, 33

¹⁸⁵ Castiglioni et al. 2018, 143

¹⁸⁶ Ibidem

¹⁸⁷ <http://corporate.alitalia.it/it/network/accordi-di-codeshare/index.html>

¹⁸⁸ Definitions and explanations that follow refer to Castiglioni et al. 2018, 140-141. The authors also add that with regard to the complementary codes, i.e. the most used ones, these allow to optimize the use of one's fleet without increasing its capacity and therefore without additional costs if not only those about the coordination with the commercial partner.

¹⁸⁹ According to Castiglioni et al. 2018 this type of codesharing is the most used.

longer managed directly by the same.^{190 191} Virtualization has become increasingly popular as it benefits both airlines and their passengers. Among the advantages¹⁹² we note: specializing on a specific type of route, allowing airlines to pay more attention to their customers, increase the number of routes and frequency of flights, making passengers more satisfied, while also increasing the number of destinations reached. In addition, we can see that aerial virtualization must also show the "other side of the coin"; in other words, all the advantages enunciated up to now need coverage of costs regarding the coordination of this strategy and of adaptation to the strategies of the partners.¹⁹³

To conclude, we can see that strategic alliances do not automatically improve the operational performance of the airlines that are part of it, as well as codesharing practices.¹⁹⁴ In other words, if the single airline does not improve its operational efficiency, the mere adhesion to a strategic alliance or to a codesharing will not be enough to guarantee improvements in the operational management of its business,¹⁹⁵ although there is evidence that confirms a positive correlation between alliances and flight frequencies.¹⁹⁶

4.3.2 Benefits and drawbacks of the M&A strategies

In the previous pages we have seen to what extent the cooperation agreements in the civil aviation industry have increased, following the evolution of its market. The main reasons behind these cooperative agreements are found in the desire of the airline companies to strengthen their position and their market shares. The airlines have tried to respond, through collaborations, to new market needs and deregulation both through codesharing, which we have seen in the previous paragraph, and with more complex collaboration agreements. Deregulation has accelerated the growth of airlines, especially as regards company mergers and acquisitions.

However, in addition to the collaboration agreements, the airlines immediately took an interest in acquisitions and mergers, mainly due to efficiencies, synergies, cost savings and

¹⁹⁰ Castiglioni et al. 2018, 142

¹⁹¹ As Castiglioni et al. 2018, 142, the concept of virtualization cannot be correlated to companies that do not apply codesharing policies. A striking example of the latter are the low-cost companies, the authors offer us the example of Ryanair which does not use code-sharing and has total control and authorship of the routes offered.

¹⁹² These advantages are based on Castiglioni et al. 2018, 142-143

¹⁹³ Ibidem

¹⁹⁴ Min and Joo 2016, 109

¹⁹⁵ Ibidem

¹⁹⁶ Alderighi and Gaggero 2014, 33

the best control over the operations they offer.¹⁹⁷ The reasons behind these merger strategies mainly concern the exploitation of synergies and access to new destinations and therefore new air routes. Furthermore, the mergers can also be used, as happened in several cases, to lift an airline from bankruptcy. On the other hand, these strategies also bring disadvantages for the affected airlines if the procedure with poor due diligence is applied, if there are cultural conflicts between the companies; however, it should be noted that there have been cases where, following mergers, there have been opposition parties from the trade unions.¹⁹⁸ However, before focusing more on the advantages and disadvantages of these strategies, let us now reflect on the evidence that compares the various acquisitions that occurred in the civil aviation sector with stays in airline alliances. These evidences show that airlines prefer to merge because they aim to achieve better and faster growth, together with better control over operations, than they would if they collaborated only in their alliances. But since the mergers generally take place between a major and a smaller airline, the relationships and consolidations within the alliances will not be changed to a significant extent.¹⁹⁹ It is precisely the mergers that give greater benefits to the airlines, compared to the alliances, unless we refer to the economies of scope.²⁰⁰ On the other hand, the alliances do not allow the cost synergies that instead occur following the corporate mergers of the airlines. Mergers allow better integration of the network and more easily obtain economies of scale, obtaining financial, IT and maintenance synergies.²⁰¹

Civil aviation mergers allow airlines to implement a different business model; the first to benefit from these changes are the consumers who, after the mergers, can enjoy a greater number of routes, together with finding more frequent flights and lower prices.²⁰² Airline ticket prices are the first to respond to merger and acquisition strategies. These prices also depend on the degree of differentiation of a certain airline. Let us remember, in this regard, that the airlines differ from each other also by geographical differentiation and precisely on the basis of this factor some airline companies decide whether to merge or not, to understand if synergies are possible following cost savings.²⁰³ We have seen that this geographical differentiation can affect competition and therefore prices, which impact directly on passenger choices. In other words, if two airlines have routes that do not overlap and therefore operate in

¹⁹⁷ Iatrou and Mason 2009, 287

¹⁹⁸ Merkert and Morrell 2012, 853

¹⁹⁹ Iatrou and Mason 2009, 296

²⁰⁰ Iatrou and Mason 2009, 289. Here the authors point out to us that a newly merged airline cannot succeed in competing in terms of economies of purpose compared to alliances formed by a greater number of airlines.

²⁰¹ Iatrou and Mason 2009, 290

²⁰² Dobson and Piga, 2013

²⁰³ Ibidem

independent markets, these companies can be defined as differentiated, leaving current competition unchanged. What could distort competition, on the other hand, are similar routes that should not necessarily be identical, which could destabilize passenger purchase prospects.²⁰⁴

At this point, as mentioned earlier, we are going to understand the benefits and the drawbacks of airline merger strategies.²⁰⁵ Certainly among the advantages we can include the evidence that mergers increase operational efficiency and at the same time reduce costs for airlines. Synergies occur mainly due to the reduction of overlapping services together with the increase in load factors. Moreover, these operating efficiencies are also the result of the reduction in unit operating costs due to the economies of scale and to the frequencies of flights to a greater extent, which also benefit the market shares of the airlines. Another advantage that follows is that of the increase in market share, to which we have already mentioned, and to the simultaneous increase in revenues. These may increase due to the growth in traffic generated by the newly merged company, for better alignment of schedules, routes and for well-coordinated commercial strategies. Subsequently, another advantage is the elimination of competition, to improve the efficiency of the operating process. Then, we note the advantage of access to new destinations, new strategic hubs and airport facilities. Another technical advantage that could push companies into merger and acquisition strategies is obtaining access to aircraft, increasing their operational capacity, or acquiring these assets through incorporation, at a lower price than the market price. The last advantage is to obtain greater attractiveness from a customer perspective; in other words, what can lead an airline company to be more attractive from the point of view of passengers are the frequencies of major flights and, therefore, the presence in more markets, obtained following the company merger.

As regards the drawbacks of these strategies, as well as the diseconomies of scale, company mergers could lead to risks for the information asymmetries present.²⁰⁶ This obviously leads to disadvantages for airlines that undertake merger and acquisition strategies. Among these we can remember different corporate cultures, especially in international mergers.²⁰⁷ In addition, since these are slow processes, we note a series of drawbacks and risks regarding legal uncertainties about mergers and acquisitions; it follows that airlines will encounter difficulties in assessing the benefits of such strategies. It is true that, as a result of mergers and acquisitions, there are benefits in terms of economies of scale, but there is the limit that airlines could, after such maneuvers, become too large, reducing the production margin to

²⁰⁴ Ibidem

²⁰⁵ The following advantages that we will analyze are based on the work of Merkert and Morrell 2012.

²⁰⁶ Merkert and Morrell 2012, 857

²⁰⁷ Ibidem

optimal efficiency; therefore diseconomies of scale would be created where airlines will acquire a size that does not allow them to fully express the potential for technical efficiency.

²⁰⁸ For the aforementioned diseconomies of scale, too large airline companies do not maximize their technical efficiencies, confirming that large airline mergers cannot benefit from economies of scale. ²⁰⁹ In addition, however, there are substantial limits on transnational mergers and acquisitions, such as foreign ownership rules. ²¹⁰

To conclude, we affirm that mergers are increasingly popular moves in the civil aviation market, and we can now understand the reasons. The operational efficiencies are improved after these processes, and the alliances do not see these strategies as threats. As we have seen there are more advantages than disadvantages, which are pushing more and more airlines to resort to merger and acquisition strategies.

²⁰⁸ Merkert and Morrell 2012, 853-854

²⁰⁹ Merkert and Morrell 2012, 862

²¹⁰ Merkert and Morrell 2012, 861

Conclusions

The management of the airline companies is a very complex activity. On the Italian territory, various airlines have come and gone, most of them then unfortunately failed. The causes that have affected the failures of Italian and foreign companies are to be found in increases in the cost of fuel, the lack of pilots, unstable returns, high taxation, deregulation, weak volumes in air traffic and security problems . As for the few operating Italian airlines, we can say that they differ in terms of profitability, productivity and entrepreneurial skills in management, and manage to make their voice heard in a very competitive industry. Alitalia was not immune to these changes. In its stormy history, the government decided to protect it with competitive commercial strategies but, together with the changes in the industry, they led the Italian airline to crisis, corporate restructuring and goings-on in the courts. The will of the government to preserve the total Italianness of Alitalia has not proved to be an optimal choice, so much so that in the end it had to accept Etihad courtship; in any case the Italian airline is operating in a current status of special administration, more and more on the edge of the civil aviation market. Going back in history, even the habits of governments had to change and take over the new industry that was looming. Governments have begun to make their presence felt by the first automotive industries that undertook differentiation paths towards the aeronautical market, when civil aviation was still a small branch of the air force. The Italian ministers, after the end of the two world wars, got down to work and aligned the Italian aeronautical industry with that of other European nations, presenting its own national airline, the Ala Littoria. From these events, to the current management of the government that operates on the civil aviation market through the ENAC, many aspects of civil aviation have changed. Mainly it is good to remember that following liberalizations and deregulations, airlines and governments had to change their way of acting. The former had to change their business model which evolved over the years following the various economic and political changes in the industry. The management of aeronautical companies has become increasingly complicated. This industry has changed people's habits and has represented economic interests for governments and entrepreneurs as soon as the potential of this industry has been understood. Since it was born until today, the civil aviation industry has been the protagonist of numerous changes; political and economic decisions have always breathing down on the players neck who have decided to operate in this market; to demonstrate this, it is sufficient to recall the case of Alitalia of which we have spoken. Anyway, the market evolutions, of course, are not yet ended. The industry of civil aviation, which has forever changed people's travel habits, is extremely dynamic. The rapid progress of technologies and the new and

changing needs of passengers will offer even more difficult challenges for the managers of the different national airlines. With the evolving market, airlines have had to learn to rely on the technical and operational management of their business to change their productivity. The technological, security, commercial and economic changes of the industry, together with the difficulties highlighted above, have led the airlines to cooperate with each other, and to operate main strategies of mergers and acquisitions and some towards commercial strategies such as orientation towards markets of niche, offer of discounted tickets and development of hub and spoke networks. It has been understood that, in order to respond to strong competition, it is necessary to be able to exploit synergies and legal and economic advantages. These moves are implemented by the various airlines with the aim of better dealing with free competition, bypassing the limits on routes and costs, allowing for a more flexible offer of fares. These maneuvers have been the answers that many airlines have faced since undertaking them bring to greater opportunities than risks.

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