Editorial

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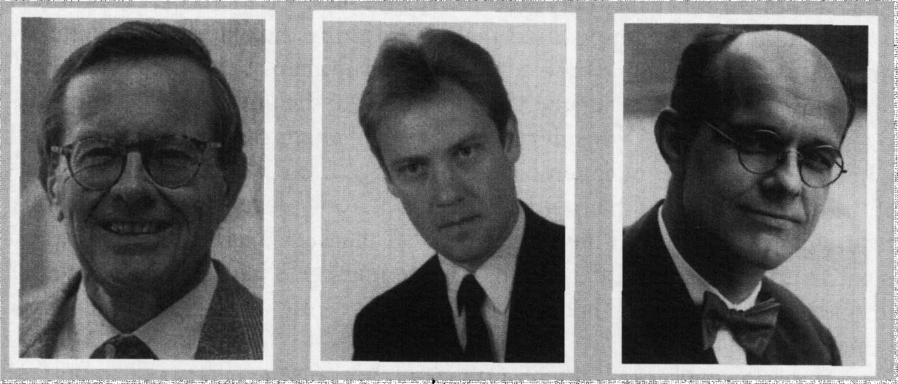

De-regulation, Liberalization, and Concentration in the Airline Industry

The airline industry has historically been hindered from achieving a high degree of internationalization and globalization because of restrictive domestic and international regulations. Those restrictions began to work already in the early days of flying, when nations did identify the importance of planes, airlines and infrastructure facilities as an economic growth driver and as a potential military instrument. Although during the last two decades liberalization in the US, the EU and other regions has enhanced the potential for aviation competition in the respective domestic markets, specific regulations and bilateral international agreements continue to restrict significantly the competitive scope and thrust of airlines at the international level.

According to reports of the OECD and the US Department of Transportation up to now most national or regional (in the case of the EU) airline regulations prohibit or at least limit foreign ownership of domestic airlines. Furthermore, despite the fact that bilateral international agreements, mainly so-called "open skies" agreements, are less restrictive with respect to the number and identity of airlines and the international routes or capacities that can be provided, they still do not permit market entry from airlines headquartered in third countries; this means that – for example – a US-UK open skies agreement would not allow Alitalia to fly the route London-Rome-Chicago. Also the agreements do not allow for cabotage; even the British airline BA is not allowed to carry passengers from Chicago to Los Angeles when flying the route London-Chicago-Los Angeles. Another obstacle to a higher degree of competition is caused by the natura bottleneck "infrastructure". At many international airports, the demand for take-off and touch-down slots and for gate respectively terminal facilities exceeds the available supply level. This is especially true for rush hours. Furthermore, incumbent carriers may hold a dominant position in slots, limiting the chance for new market entry. Last but not least in some countries discriminatory arrangements benefit the incumbent flag-carrier airline when it comes to the question who gains access to airport facilities. As a result of the described changes within international airline business a strange management situation occurred at least with the beginning of the nineties. Although no full liberalization took place there was a slightly increased chance for entering new international markets. On the other side full access was – up to now – not permitted. Airline managers had to decide whether to hold on to traditional and thereby proven routines, i.e. to stay at the level of mainly pure national carriers, or to develop and employ concepts which allow for international growth and higher ROIs. Some managers turned out to be real entrepreneurs. They saw the chance to establish strategic alliances. What are the firm-specific benefits of alliances? First they are effective means to lower cost and to enhance efficiency by rationalizing the system. As a second benefit they allow to expand seamless services or – in fact – services that seem to be seamless. Code-sharing alliances offer the same advantages as true seamless connections do: no additional check-ins, greater security in the case of delays or in the case of lost luggage. In combination with frequent flyer programs alliances are therefore able to enhance demand for the allied airlines. As a third benefit alliances will reduce the degree of competition in those markets, which were previously served by the distinct alliance partners. The described benefits will even grow when airlines would begin to standardize their planes and other material. Although the game with mighty alliances began only in the mid of the nineties – the oldest, still existing, and most developed alliance is the Star Alliance, founded by Lufthansa and United Airlines in 1997 – the world market has changed dramatically. According to the OECD already in 1998 the major alliances One-world (core partners: American Airlines/British Airways), Sky Team (core partners: Delta/Air France) Star Alliance (core partners: Deutsche Lufthansa/United Airlines), and "Wings" (core partners: Northwest/KLM) accounted for 57% of world traffic market share. Since 1998 the market share of the alliances is continuously increasing and had reached in 2001 the impressing amount of 70%. Moreover, typically each alliance consists of a small number of really big airlines, which are still growing by acquiring other airlines of the respective national or regional market, or at least by investing into them to hold minority ownerships.

The tremendous growth of international airline alliances and the rapidly change of the industry structure can be viewed critically. Although most of the alliances foster efficiency and lead to a higher quality of services they often also lower significantly competition in specific markets. However, it wouldn't be fair to interpret this development as a direct result of deregulation. It is rather a consequence of the non-competitive structures which were typically of the full-regulation-period. Such consolidation processes do occur also in other, formerly highly regulated markets like the energy or the telecommunication market.

In order to keep competition alive or to revive it in endangered markets special considerations should be given to policies which are lowering barriers of market entry. Such policies should cover a competition-oriented allocation of slots and other limited airport capacities, and a more critical view on loyality programs. Regulation, here defined as competition policy, is again necessary, now in order to protect competition instead of national industries. In times of globalization the big task ahead is to run a competition policy on a more supranational level, and not to fall back into national regulation practices.

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Now to the business at hand. The present issue of **mir** provides in its first paper a model of MNC commitment of resources in foreign countries. The second paper analyzes the correlation between theoretical models and development of the international strategy. The third one examines the impact of the top management team's international business experience on the firm's internationalization extent, especially with regard to social networks at work. The fourth article focuses on a model of the key factors affecting the sharing of international joint venturing experience in parent firms. The final paper deals with the potential of the internet to improve the efficiency of market transactions.

Trond Randøy's and *C. Clay Dibrell*'s article offers a study to provide a model of MNCs' commitment of resources in foreign countries. Based on the data of Norwegian MNCs' activities in Sweden, Germany, the United Kingdom, Spain, Poland, Japan, and the United States the results suggest that the strategic motives are important to MNCs' decisions. This research reveals how and why firm-specific, location-specific, and transaction-specific variables need to be supplemented by strategic factors to fully understand MNCs' resource commitments abroad. The aim of *José Pla-Barber*'s empirical study is to test whether the theoretical models concerning international structures and strategic approaches explain the behavior of the internationalization of firms from a newly liberalized Economy. Its results suggest a high correlation between the theoretical models and the development of the international strategy in the sampled firms.

The results of *Nicholas Athanassiou's* and *Douglas Nigh's* study point out the relationships between the career international business (IB) experience of the top management team (TMT) and the US MNCs' internationalization extent. Among others the results of this study support the idea that the TMT members' prominence or influence in the TMT IB advice network matters in explaining the effect of TMT career IB experience on the MNCs' internationalization extent.

Eric W. K. Tsang's paper develops and tests a model of the key factors affecting the sharing of international joint venturing experience in parent firms. Its results indicate that overseeing effort, management involvement, and institutionalization of experience are important factors affecting experience sharing, while foreign direct investment experience is a main determinant of institutionalization. Based on the internationalization theory and the agency/transaction cost theory *Bent Petersen*'s, *Lawrence S. Welch*'s, and *Peter W. Liesch*'s paper examines the effects of the internet on foreign market expansion by firms. The results show that the internet may contain a challenge to mainstream internationalization theory in regard to the role of knowledge: instead of acting as an initial constraint it may be a factor that propels firms into foreign market expansion.

This issue's **Biblio Service** includes the review of *Risk Management. Challenge and Opportunity* by Michael Frenkel/Ulrich Hommel/Markus Rudolf (eds.).

Both, the authors and ourselves are interested in your reactions and would like to encourage an active participation of our readers. This is important in terms of a viable editorial program. Therefore, we would appreciate your opinions, comments, and reactions on the above mentioned subjects and editorial program of the journal either in form of short papers or even letters suggesting changes or improvements.

KLAUS MACHARZINA