

Global strategic alliances – a must or a no-go for small airlines

BACHELOR PAPER

submitted at the
IMC Fachhochschule Krems
(University of Applied Sciences)
Bachelor programme
Export-oriented Management

Partner University
Bachelor programme
Metropolia University of Applied Sciences

by
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for the award of the academic degree

Bachelor of Arts in Business (BA)

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Submitted on: 08.05.2020

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A handwritten signature in black ink, appearing to read "Iga Natasa". The signature is written in a cursive style with a long horizontal stroke at the end.

Abstract

Global alliances play an important part in the aviation industry due to the big market share they are holding. Star Alliance, Oneworld, and SkyTeam connect their members and offer them different types of benefits. Nevertheless, there is a big gap between small carriers that are a part of the partnership and the global airlines. Thus, not all of the advantages are that beneficial. On the other hand, there are many airlines that are not a part of those three alliances, therefore their strategy focuses on overcoming the benefits that were gained by the members of the alliance.

The purpose of this paper is to analyse the current situation of small airlines that are members of global partnership and understand whether the benefits outweigh the drawbacks. Moreover, the position of carriers outside was identified and the different strategies the airlines were able to implement. To show examples, the authors closely analysed carriers such as Croatia Airlines, Czech Airlines, FlyBosnia, Air Serbia, and UIA. In order to gather that information, financial statements and current partnerships were investigated. The entire research is based on secondary data only, collected from different sources. The findings show that the decision whether entering the alliance or being a member of one is beneficial for small airlines is an individual choice and every airline might answer those questions differently.

Key Words: Aviation Industry, Global Alliances, Star Alliance, SkyTeam, Oneworld

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List of abbreviations

CSA	Czech Airlines
IATA	The International Air Transport Association
ICAO	The International Civil Aviation Organization
UIA	Ukraine International Airlines

1 Introduction

The aviation industry has been experiencing rapid growth worldwide, due to the expansion of the tourism sector, low fares, and the need for better connectivity in a globalized economy. Growth of the middle class plays a major role in the rise of increasing numbers of flights, since more people can afford to take a plane, when going for holidays or business-related travels. Moreover, studies have shown that between 2012 and 2017 commercial airlines experienced an annual increase in the number of passengers of 6,2%. (OBG, 2020).

Nevertheless, the industry is facing a serious challenge, mainly caused by the outbreak of Coronavirus. Many airlines are on the edge of the bankruptcy since most of their aircrafts have been grounded for several weeks now and there is no information when they will be able to fly again. Moreover, due to the restrictions imposed by many governments and the panic caused by the virus within the population, there might be a drastic decrease in passengers choosing to fly. Many people might decide not to travel abroad for the holidays and the passengers taking the plane on business grounds might be working remotely from their home countries. It is also not clear when exactly the countries will open their borders and allow the international air traffic to be back. Therefore, at this point it is essential to recognize, what steps should the airline take and whether joining an alliance will help in solving those problems.

Cambridge dictionary defines the word alliance as “a group of countries, political parties, or people who have agreed to work together because of shared interests or aims”. Every party that enters an alliance is to some extent competitive, but they are willing to work with their competitors in order to gain more benefits or to minimize risks (Marciszewska, 2001). Consequently, the airlines that join the alliance learn on how to become even more efficient.

Airline alliance is an agreement between two or more airlines in order to cooperate on a sizable scale (Wang, 2014). Alliances are seen as the fastest and cheapest strategy to become a global carrier (Pijet-Migon, 2012). The reason airlines form alliances is to provide a better service especially for the international passengers

and travelers using the benefits from the frequent flyer program. Moreover, this type of collaboration enables the extension of the networks that the airline can offer and the higher frequencies of certain routes. Being in agreements also allows airlines to reduce the costs from sharing different facilities such as administration offices, catering services, or check-in personnel or embrace joined marketing. Airlines, that are in alliances gain bigger bargaining power for investment. Additionally, there is a significant increase in load factor as well as in revenue (Seredynski, Steitz, & Rothlauf, 2017).

Nowadays, there are around 300 different airlines alliances (Pijet-Migon, 2012), but only three of them are considered as global alliances. In 2018 they held around 53,4% of the total market share (Statista, 2019), only in 2008 those three alliances carried 1 377 000 passengers. Those alliances are: Star Alliances, Oneworld Alliances, and SkyTeam Alliances with the first one is being the biggest as well as the oldest one of them. To those alliances belong well known, international airlines such as Lufthansa, SAS, Aeroflot, Singapore Airlines, American Airlines or Qantas Airways. Nevertheless, there are also smaller, less popular carriers as Croatia Airways, Avianca or Aegean Airlines. Since there is no definition of “small airlines” in the context of this research a small airline will be defined as one that does not exceed the number of 3 million passengers transported in their aircrafts annually and there are less than 100 daily departures.

Nonetheless, with all the benefits that the alliances have to offer, a lot of airlines are still not interested in joining a global alliance. There are few airlines that were able to grow into the status of global airlines without being in any alliance. Moreover, there are carriers within Europe that had the capacity to gain a strong position as a medium-sized company like Ukraine International Airlines. Some of the airlines outside of those agreements are a major player in the aviation market such as Emirates or Etihad Airways, but there are also small ones for example FlyBosnia or Air Serbia.

1.1 Aims of the research

"We don't want to enter a global alliance like Star Alliance, SkyTeam or Oneworld"- Thierry Antinori. In the interview for the newspaper La Tribune in 2012, Emirates'

Executive Vice President has stated that the airline has no intention of joining any of the global alliances.

In 2018 Emirates group records a profit of 631 million U.S. dollars with 29.8 billion of U.S. dollars of revenue. The airline has 270 airplanes in its fleet and connects 109 countries. Emirates is not sequestered in their choice, there are many other airlines that believe they can achieve higher goals without global alliances (Emirates, 2019). Therefore, in current days it is questionable whether alliances are the only right strategy for airlines.

Founders of alliances were always global airlines with a strong position in the market: such as United Airlines, British Airways, or Air France. Nevertheless, nowadays there are also smaller airlines in those agreements, which position might differ from bigger colleagues. As history has shown, the airlines within the alliance are still competitors, and cases of overtaking or going bankrupt were recorded during the last two decades.

In 2001 Canadian Airlines were overtaken by Air Canada, even though they both were a part of Star Alliance. In 2004 Mexicana airlines decided to leave Star Alliance and in 2009 national Panama airlines decided to leave SkyTeam. Moreover, only in Star Alliances there were two companies that went bankrupt, in 2001 Australian airline Ansett and in 2019 national Slovenian airline Adria Airways (Pijet-Migon, 2012). In 2008/2009 the differences in profits/losses between the members are significant. In that period only a few of the airlines were able to make a profit. The ones with losses were the smallest airlines within the partnership such as Croatia Airlines (Šimunović, Tatalović, & Bajić).

Being a member of a global alliance definitely has many benefits that might be appealing for the airlines, but there is a price that every airline within the alliance has to pay. Probably the biggest problem is that the members differ a lot from each other and that is the reason why there is a need to often compromise the airline's strategy and vision in order to fit into the group. Before entering the global alliance, airlines have to analysed, whether it is a move they are ready to make, and if the outcome will be as expected. They also have to consider other possibilities for their own expansion such as agreements like code-shared agreements, one on one with

another airline. Which would allow the airline to remain independent with the gain of new routes.

In this research author analysed small airlines that play the role of a national carrier and do not follow the business model of low-cost airlines.

The aim of this research paper is to investigate the strategy of joining global alliances in the airline industry for small airlines. The objective is to assess whether the benefits of being part of global alliances for airlines with a smaller market share is enough for an airline to survive on the market. Moreover, the thesis will explore if there is a necessity for small airlines to join global alliances in order to stay competitive.

In line with the above-stated research aims, the author will answer the following research questions:

1. Do the benefits of being a part of a global alliance outweigh the drawbacks for small airlines?
2. Is it necessary for small airlines to join global alliances in order to survive in the industry?

1.2 Methodology

In order to understand current airlines' positions within the alliances or outside those agreements, the author will be based only on the secondary sources.

The author reviewed already existing, scientific literature on alliances with the aim of defining the role of an airline within the agreement. The author investigated the benefits of collaboration but also on risks and drawbacks connected to it. Moreover, annual reports and financial statements published by the airlines were analysed in order for a better understanding of the current position of the airlines. Literature search was based on academic books and articles and also on reasonable credible internet sources such as e-journals, e-books, or websites.

The paper is divided into 3 theoretical parts. First one is focusing on explaining the meaning of alliance, different types of alliances as well as reasons behind creating alliances in the past. Moreover, the author analysed the current situation of three global alliances. In the second part, the author described in detail the reasons behind entering global partnerships, but also the benefits that are gained by the

members of those. Later author investigated two small airlines Croatia Airlines, Czech Airlines, and the case of bankruptcy of Adria Airways. The last part presents the situation of airlines that are not a part of the global alliance and their strategy. The author provided an example of two small airlines FlyBosnia and Air Serbia and, in comparison airlines that have a global reach such as Emirates and Etihad Airways. Moreover, the author introduced Ukraine International Airlines as an example of a medium-sized airline that was able to gain a stable position on the market and is not a member of global alliances. This approach was used to understand the position of small airlines on the aviation market as well as to answer the author's two researched questions.

2 Global airline industry

Globalization became a major aspect of the current world and the role of the aviation industry in it is to play a central role in spreading globalization's benefits more evenly. In 2018 airlines carried about 4 billion passengers offering over 22,000 global routes. The total net profit from that year reached US\$30 billion with the industry revenue of US\$812 billion (IATA, 2019). Nevertheless, the current situation that airlines have to face is a big challenge for the entire industry. Since the majority of aircrafts are grounded due to coronavirus, and estimations show that the global losses for aviation industry might reach US\$ 124 billion (Statista, 2020). Many airlines such as Virgin Australia are already seeking bankruptcy protection since they are in such a poor financial position (McGuirk, 2020). Moreover, another issue that the airlines have to face is a new movement called Flygskam, which in Swedish means air shame. Many young people start to be ashamed of flying, because of all CO₂ that is produced by the aircraft. In order to protect the environment, the movement encourages people to take a train instead. 37% of people are claiming they would choose a train instead of a plane when it is possible. In April 2019, the number of domestic travelers at Swedish airports operated by Swedavia fell by 15% (Quick, 2019). In 2018 Asia and Pacific represented 34.8% of world of total traffic, followed by Europe with 26.3% and North America 22.4% (ICAO, 2019). In 2020 there are 299 airlines worldwide that are members of the International Air Transport Association.

2.1 History of aviation industry and aviation agreements

From the beginning the public sector had a strong influence on the commercial aviation industry. States had a great interest in national flag carriers and they were trying to protect them from competition and the same time to promote the efficiency in the state's market. In 20th century transport was the most regulated part of the economy. Regulations for air transport were mainly introduced after World War II, when foreign airplanes were seen as a threat. Political and economic situations as well as privatisation and deregulation forced airlines to approve major changes. In order to stay competitive, they started to form different types of agreements.

Following that strategy, they were able to gain market share, avoid ownership limitations, or follow the global trends. In the 1990s major carriers started to enter agreements with regional airlines that the bigger airline can improve the efficiency (Cetiner, 2012). In 2001, over 80% of all carriers around the world were in some form of co-operation with another airline, since then on average 70 new or revised alliance agreements are introduced every year (Holloway, 2008) (Pijet-Migon, 2012).

2.1.1 Regulation and deregulation of industry

In 1944, before the end of World War II, representatives of 54 states attended the International Convention of Civil Aviation, later known as the Chicago Convention. The treaty that was signed marks a critical milestone in the history of aviation, since it set the foundation for today's global airline industry in the domestic as well as international aspects. Main resolutions were establishing the air space as a sovereign for every country, five out of nine freedoms of air, and bilateral agreements. The Fifth Freedom refers to the right of carrier registered in State A to carry passengers and cargo at an airport of the agreement partner, State B, for transport to a third State C (Pijet-Migon, 2012). Since only twelve states agreed on the Fifth Freedom, countries started to sign bilateral agreements. That meant that only those airlines designated in that agreement between two countries received transport license and traffic right on specific routes at specific capacity and frequencies (Iatrou & Oretti, 2016). Nowadays there are around 3,000 of such agreements, also known as the Chicago-Bilateral System. All regulations introduced in the airline industry were in order to protect the sovereignty and safety of the countries, but also there were protecting the national flag carriers that in most cases belonged to the State Treasury. The protectionism of the industry had an influence on the remaining high pricing and low number of competitors (Belobaba, Odoni, & Barnhart, 2009).

In 1978, the Airline Deregulation Act was signed by Jimmy Carter and that was the beginning of the deregulation process for the American as well as the European market, even though the process took longer in Europe, since the big part of Europe was represented by the Soviet Union. This act made it easier for new airlines to

enter the market. It was the beginning of fully private airlines as well as Low-Cost Carriers (LCC) that started to offer low fares in order to attract a higher number of customers. Despite the fact, that process of liberalization of the industry differed between the USA and Europe, the results were similar. The number of carriers is significantly higher, thus every airline, no matter whether is state-owned or private, has a higher competition (Belobaba, Odoni, & Barnhart, 2009) (Pijet-Migon, 2012). Another important agreement for the free market was the creation of the open-skies agreement, which was reached in 2007. This type of the agreement allows members to enter cooperative marketing relations including code-sharing, franchising, or leasing. Implementing those arrangements, especially code-sharing, allows carriers to enter new markets without additional investments. Moreover, open-skies agreement enhances the carrier to execute the Fifth Freedom, thus the competition on international markets is greater. As a result, fares offered to passengers are significantly lower and airline efficiency is higher. The unlimited number of flight frequencies on any given route allows carriers to offer a more flexible schedule of flights to their customers (Finger & Button, 2017).

2.1.2 Beginnings of alliances

The First alliance was formed in 1930, between Panair do Brasil and its parent company Pan American World Airways, which nowadays it would not be considered alliance. Later, with the deregulation of industry and technological development, alliances changed their forms and now their main focus is to get more competitive. Nowadays there are many agreements and alliances with different characteristics. Formation of alliances allowed the airlines' connecting their networks and extending the market they can reach. As a result of increased traffic on the flight network, the utilization of the aircraft capacity is also improved (Pijet-Migon, 2012). „The most active period of alliance-making was triggered by the deteriorating financial performance of international airlines as they were hit first by the crisis in the tiger economies of East Asia from late 1997, then by the economic slowdown in some European states in 1998, followed by the rapid escalation of fuel prices in 1999. Airline business in June 1998 recorded 502 separate inter-airline alliances, 32% more than a year earlier. As the global economic downturn began to bite in 2000

and the airline crisis deepened, especially after the attacks in The United States in September 2001, the alliance frenzy intensified. Many airline managers saw alliance building as a key pillar of their survival strategy” (Doganis, 2006).

2.2 Alliances and agreements

So far, there is no definition or regulation made by the authorities of the airline alliance. In the glossary of “most commonly used air passenger terms” The International Air Transport Association (IATA) included alliances as a “three or more airlines practicing in the commercial relationship or joint venture, where 1) a joint and commonly identifiable products are marketed under a single commercial name or brand; and 2) this commercial name or brand is promoted to be the public through the airlines participating in the alliance and its agents; and 3) the commercial name or brand is used to identify the alliance services at airports and other service delivery points in situations where bilateral agreements exist, for example, codeshare agreements”. In comparison, the International Civil Aviation Organization does not provide any definition on that term.

There are two main categories of alliances: tactical and strategic. Tactical alliance is based on bilateral agreements between airlines, to be able to access each other’s network. Through interline agreements, code-sharing and joint venture carriers were able to pursue marketing strategies. Interline agreement includes only limited cooperation between airlines, while transferring passengers from one airline to another on passenger’s route. Usually interline flight fares charged by alliance partners are significantly lower in comparison to carriers outside of alliance (Cetiner, 2012). Many airlines face the choice of using their own aircraft or outsourcing the capacity provision. Code-sharing is an agreement between carriers and it concerns passengers and or cargo sales on specific flight. The airline operating the flight is known as the “operating carrier” and the outsourcing one is known as “code-sharing carriers”. The majority of those agreements include two airlines, nevertheless, there are some cases of multi-partner code-sharing. There is no set number of seats that are bought on each flight and the code-sharing carrier will only pay the negotiated price for each taken seat. This agreement is crucial in developing an alliance strategy, since it broadens the network with a higher number of route’s frequency.

The alternative for code-sharing agreement is blocked space, which might involve code-sharing, but not necessarily needs to. An airline buys seats on the operating flight, at the price lower than in a code-sharing agreement, and sells it under its own name. Joint ventures are partnerships, where airlines share profits on international routes without consideration of which airline provided the service. Franchising is another form of agreement, where the franchisor, the carrier with a strong brand, is licensing to a franchisee the brand identity. That might include aspects as aircraft livery, crew uniforms or brand names. There is also freedom of network scheduling and the design but that the amount of freedom might differ, since usually the franchisor wants to have a major input in that (Holloway, 2008).

There is also a classification of alliances called horizontal and vertical alliances. Horizontal one reduces competition between on the market with competition between partners but also on other markets reached by the network of alliance. Vertical alliance is when two companies decide to link up for their complementary products. This form of integration allows for strategic advantage by allowing the partners to focus on better outputs. Moreover, airlines and their partners are able to eliminate the double- marginalization issue. Some of the airlines mix horizontal and vertical integration and due to that they have pro- as well as anti-competitive effects (Cento, 2009).

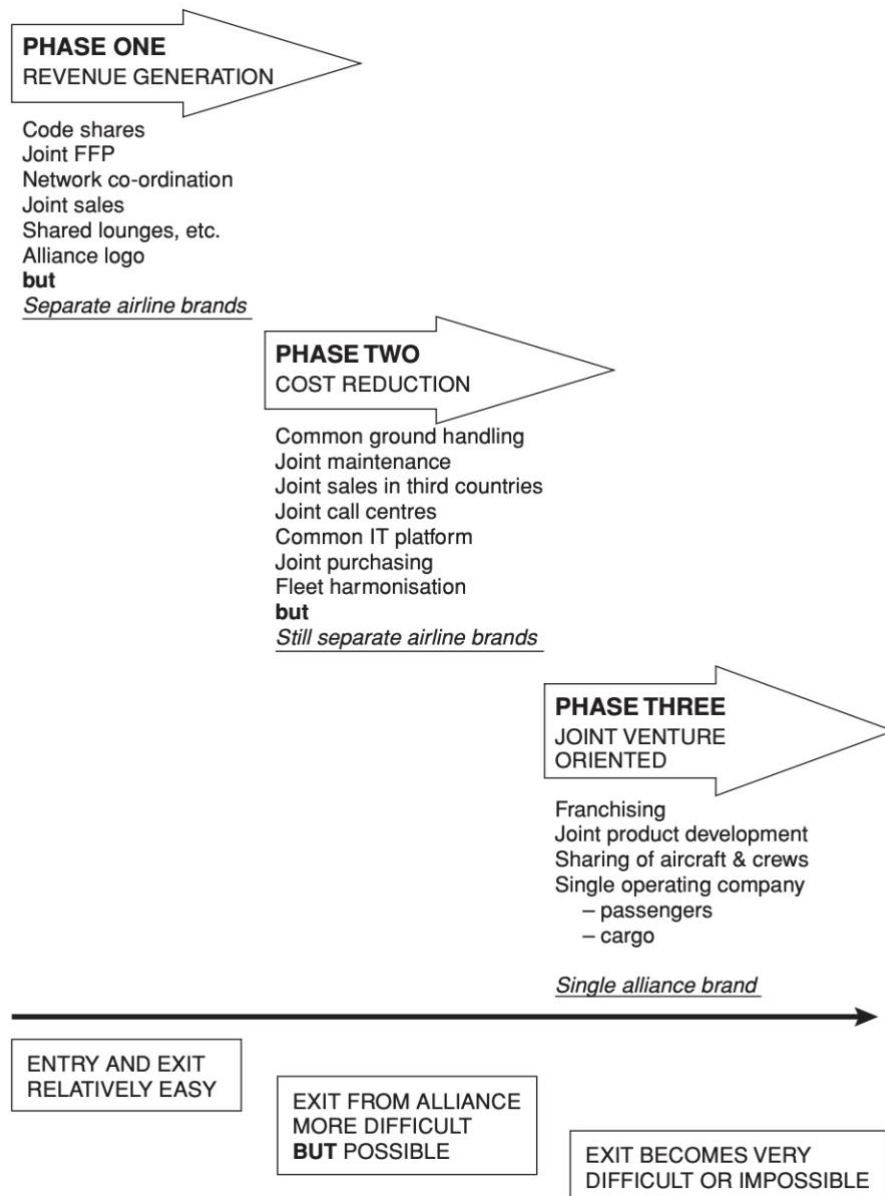
2.3 Strategic alliances

Strategic alliance is a “purposive strategic relationship between independent firms that share compatible goals, strive for mutual benefits and acknowledge the high level of mutual dependence” (Ireland, Hitt, & Vaidyanath, 2002). In This type of agreement companies co-develop the products, technologies, or services. Moreover, the airlines are able to gain access to the resources, which they could not gather while operating individually and they are able to lower the operating costs. Strategic alliance comes in different forms, from constructional agreements to joint ventures. In this type of agreement acquisitions or mergers happen quite often. Within every alliance there are different phases of integration. The first phase that can be identified is based on generating profits. Alliance offers an integrated loyalty program, lounges or routes, coordinate the sales, special offers, and tariffs. The

alliance has one logo, but carriers perform under their own. Code-sharing or blocked space are examples of agreements that are characteristic of this level of integration. The next phase is focused on reducing the costs by sharing the costs of ground operations, joint aircraft services, or the negotiation power gained by the size of the alliance. At this point of integration companies still have their own logo, but leaving the alliance is more difficult. Some alliance and their members, enter phase two of integration, skipping the first one. The first two phases are commercial alliances, thus they are easy to break and the carrier is able to leave it any time. The last phase is a joint venture oriented, that is operating under one name, with the possibility of a full merger.

The example to that is KLM and Air France, who in 2004 formed a new group that controls 100% of the two former operational airlines, whose operations remaining independent. In this phase it is very difficult for a carrier to leave the alliance. Moving from phase 1 to phase 3 might be challenging and a lot of factors need to be deliberated. All airlines within the alliance need to share the same long-term vision, moreover services should customer-oriented and maintained at the highest possible level. The governance needs to be neutral but powerful and in order to achieve that there needs to be mutual trust between the management team in every carrier. Not all airlines or alliances aspire to become a joint venture, since they want to stay independent as much as possible with full ownership (Cento, 2009) (Doganis, 2001).

Picture 1: Phases of integration



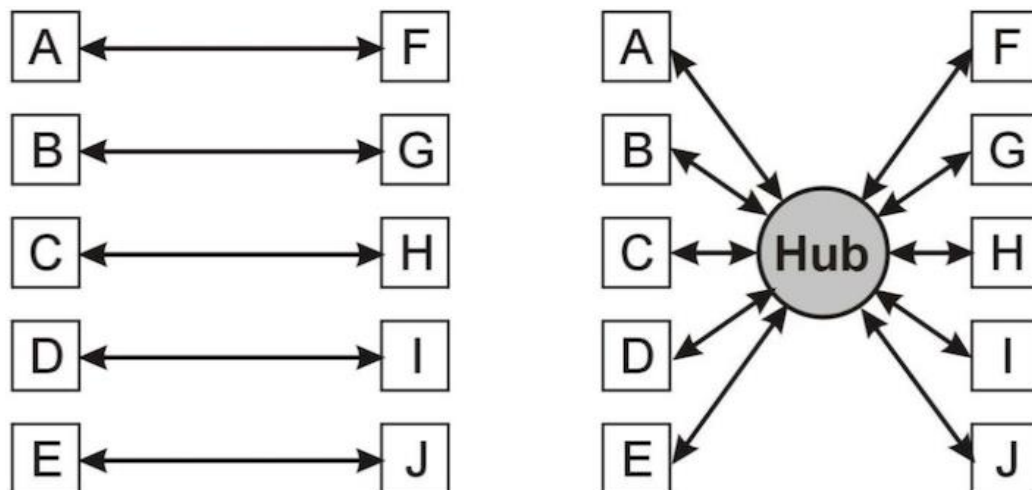
Source: (Doganis, 2001)

2.3.1 Hub and Spoke System

With changes such as deregulation of the industry, new strategies arise. One of them was a new model of connecting destinations. The traditional structure, so-called point-to-point, connected one destination directly with the other airport. The problem with this is that the reach of one airport is very limited. For passengers it

means that they would have to change many times in order to get to their final destination. This problem was solved with a new solution of hub and spoke system. Big airlines decide on one airport with the biggest potential to become their main layover point for passengers, so-called hub. This type of system allows the airline to increase the number of routes between airports as well as to synchronize the schedule, thus increasing the load factor for the main routes. To compare those two systems, with five pairs of airports, in point to point system passengers will be able only to flight on five routes. With five pairs of airports and with one hub, passengers can choose from 55 different routes. Additionally, In the hub and spoke system, airlines are able to minimalize the time of travel for passengers. This structure gives the carrier economic advantages and allows one airline to become a regional monopolist of the hub airport. In Europe the biggest hubs are Frankfurt am Main, which is mainly operated by Lufthansa, London Heathrow operated by British Airways, Charles de Gauelle in Paris with the majority of flights with Air France and Amsterdam with KLM. This is not only limited to Europe but also appears around the world, in Dallas the major airline is American Airlines, and in Dubai, Emirates (Pijet-Migon, 2012).

Picture 2: Point to Point and Hub & Spoke System



Source: (Pijet-Migon, 2012)

2.4 Global Strategic Alliances Nowadays

Alliances are the fastest and cheapest way to become a global carrier (Pijet-Migon, 2012). The airline industry is one of the factors that fuel the globalization, but at the same time, it has to follow the changes. In the liberal market, carriers can only be competitive at the multinational level, when they operate globally. That is the reason strategic partners are chosen carefully, so the alliances will be able to cover as many routes as possible. Currently there are three global strategic alliances: Star Alliance, Oneworld and SkyTeam. All three alliances control almost 90% of commercial traffic between Europe and North America. Additionally, those three alliances have on average 15672 departures daily (Finger & Button, 2017). Therefore, the alliances play a major role in the aviation market.

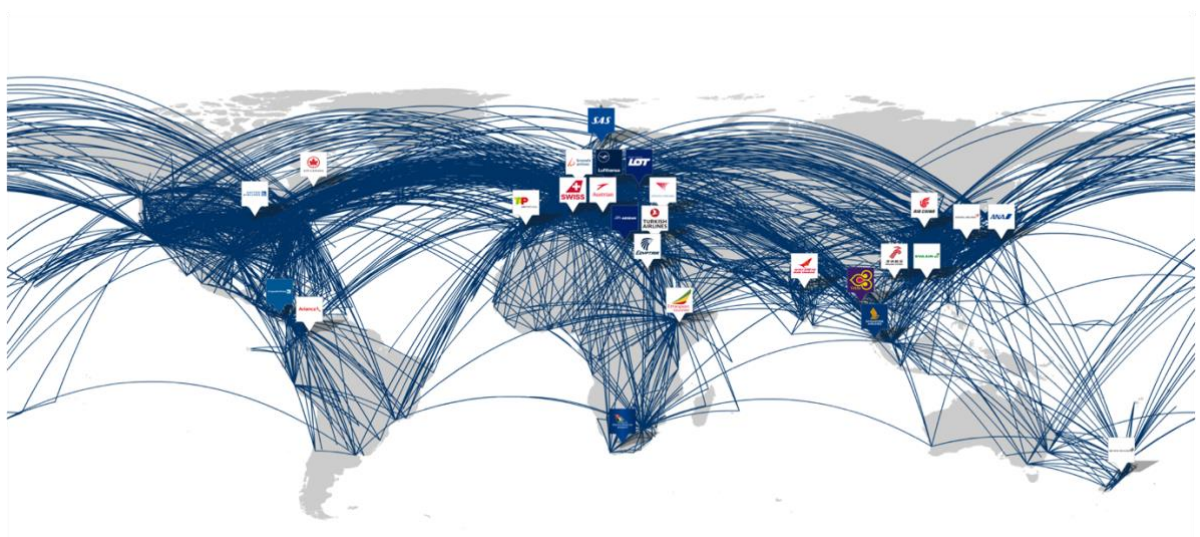
2.4.1 Star Alliance

Star Alliance is the oldest global alliance, It was officially established on May 14th, 1997 by Lufthansa, Air Canada, Scandinavian Airline System (SAS), Thai Airways International and United Airlines. The beginnings of this alliance go back till 1959, when SAS together with Thai Airways started Thai Airways International as a joint venture (Marciszewska, 2001). In 1997 Brazilian airlines Varig joined the alliance, extending the alliance's network to South America, but due to financial problems was excluded from the alliance January 31st 2007. The same year the company went bankrupt. In 1998 the First Country Sales Committees were established and now they are known as Country Steering Councils. In 1999, three other airlines joined the Star Alliance: All Nippon Airlines (ANA), Air New Zealand and Ansett Australia. The last carrier declared bankruptcy in 2001, after less than two years into the alliance. In 2000, Singapore Airlines and Austrian Airlines decided to leave the Qualiflyer alliance to join Star Alliance. The same year, British Midland entered the group, and Star Alliance opened a business center in Frankfurt, Germany. Three years later, Star Alliance welcomed three more members: Polish Airlines LOT, Spanair, and Asian Airlines. Today it has 26 members: Aegean Airlines (Greece), Air Canada (Canada), Air China Limited (China), Air India (India), Air New Zealand Limited (New Zealand), All Nippon Airlines (Japan), Asian Airlines (South Korea),

Austrian Airlines (Austria), Avianca Holdings S.A. (Columbia), Brussels Airlines (Belgium), Copa Airlines (Panama), Croatia Airlines (Croatia), Egyptair (Egypt), Ethiopian Airlines (Ethiopia), Eva Air (Taiwan), LOT Polish Airlines (Poland), Lufthansa (Germany), Scandinavian Airline System (Sweden), Shenzhen Airlines Co. (China), Singapore Airlines (Singapore), South African Airways (Republic of South Africa), Swiss International Air Lines (Switzerland), TAP Air Portugal (Portugal), Thai Airways International Public Company Limited (Thailand), Turkish Airlines (Turkey) and United Airlines (USA). The main headquarters of alliance where all the activities are coordinated is Frankfurt, Germany, with the CEO Jeffrey Goh. The company mission is “Execute leadership in managing a portfolio of alliance products and services using an agreed process” (Star Alliance, 2020).

In 2019 combined total revenue of current Start Alliance member airlines was US\$297.04 billion. The annual number of passengers carried in their aircraft was 762.24 million. There are over 1,300 airports served with more than 1,000 lounges in 195 different countries, giving the alliance 98% coverage of the globe. The number of employees exceeds the numbers of 430,000 and the total number of aircraft’s fleet is over 5,000. In 2008, Star Alliance had 29.3% of total market shares, which was the highest of all three alliances (Pijet-Migon, 2012).

Picture 3: Star Alliance Network



Source: (Star Alliance, 2020)

During the 23 years of Star Alliance's existence there were four airlines that went bankrupt and four decided to join other alliances. The ones that declared bankruptcy were VARIG in 2007, Ansett Australia in 2002, Spanair in 2012, and Slovenian airlines Adria Airways in 2019. Compañía Mexicana de Aviación, US Airways, TAM Airlines decided to leave Star Alliance and join Oneworld Alliance. Shanghai Airlines also left the group in 2010 to join Sky Team. Blue1, a Finnish airline, was a part of alliance till 2015, when it was sold to Irish airline CityJet. British Midland Airways Limited was a member till 2012, when British Airways bought the airline.

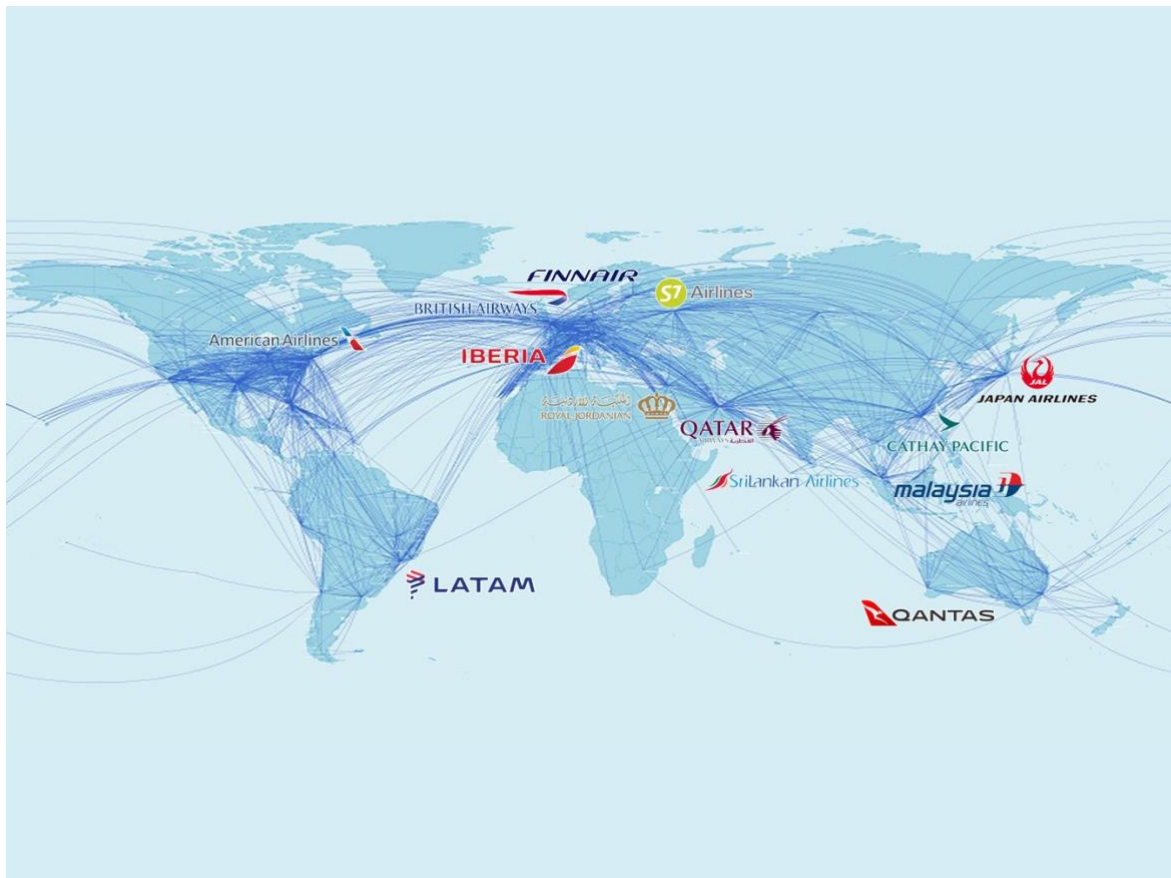
Most of the carriers that do not exist anymore were small airlines with the fleet no bigger than 40 aircraft. In 2019 there is only one small airline left in Star Alliance which is Croatian Airlines. The airline had US\$271 million of total revenue in 2018, with 2.17 million annual passengers. In comparison United Airlines, the biggest member of the alliance, had a revenue of total US\$21.3 billion carrying over 158 million passengers. (Pijet-Migon, 2012) (Sheth, Allvine, Uslay, & Dixit, 2007) (Star Alliance, 2020).

2.4.2 Oneworld Alliance

In September 1998, five airlines with high market share: American Airlines, British Airways, Canadian Airways, Cathay Pacific, and Qantas Airways decided to establish a new alliance, which was supposed to be competition for already existing Star Alliance. The official date the alliance was established in February 1st 1999. The same year Iberia and Finnair joined the group. One year later Lan-Chile, which currently is under the name LATAM Airlines after the merger with TAM Airlines in 2012, joined the alliance. In 2007 Royal Jordanian, Japan Air Lines, and Malév entered the agreement. In 2010, S7 became a full member of Oneworld. On November 15th 2010, Malaysia Airlines, and on February 1st, 2013 Qatar Airways joined the group. The youngest member of the group is Royal Air Maroc, which joined the alliance on April 1st, 2020. Currently, there are fourteen full members: American Airlines (USA), British Airways (Great Britain), Cathay Pacific (Hong Kong), Finnair (Finland), Iberia (Spain), Japan Airlines (Japan), Latam Airlines (Chile), Malaysia Airlines (Malaysia), Qantas (Australia), Qatar Airways (Qatar), Royal Air Maroc (Morocco), Royal Jordanian (Jordan), S7 Airlines (Russia) and

SriLankan Airlines (Sri Lanka). The Oneworld alliance has one partner, who is not a full member of Oneworld, Fiji Airways, the national carrier of Fiji, that joined on December 5th 2018. Alaska Airline is a candidate to join the alliance and is supposed to become a member in the summer of 2021 (Oneworld, 2020) (Pijet-Migon, 2012). In 2007, Aer Lingus, the national carrier of Ireland, after transforming into a low fare airline decided to leave Oneworld. In 2010 Indian carrier Kingfisher declared bankruptcy and even so the airline was not an official member of the alliance, it was a candidate to join Oneworld. Two years later, Malév Hungarian flag airline went bankrupt, leaving the country without a national carrier (Mills, 2017). In 2018 Oneworld offered 1,100 destinations in 180 countries at over 650 airports. With almost 14,000 departures every day, the alliance was able to carry more than 535 million passengers which was three times as many as in the first year of group existence. The alliance generated in 2018 the total revenue of US\$125 billion with a combined fleet of 3,500 aircraft. In 2008 Oneworld had 23.2% of total market share (Mills, 2017).

Picture 4: Oneworld Network



Source: (Malaysia Airlines, 2020)

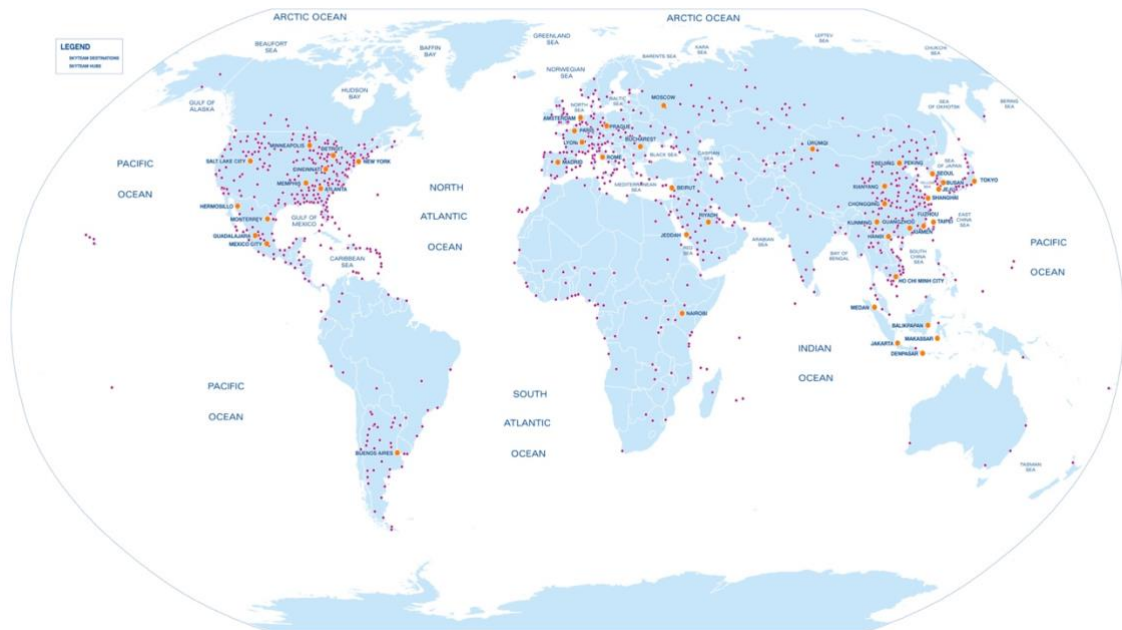
2.4.3 SkyTeam Alliance

The youngest alliance was established on 22nd, of June 2000, by Aeromexico, Air France, Delta Airlines, and Korean Air. Next year Czech Airlines and Alitalia joined the group. In 2003 alliance welcomed two new members: KLM and Northwest, next year Continental Airlines joined Sky Team. In 2006 and 2007 Aeroflot and China Southern Airlines, Air Europa, Copa Airlines and Kenya Airways entered the alliance. As 2020 there are 19 members of the alliance: Aeroflot (Russia), Aerolíneas Argentinas (Argentina), Aeromexico (Mexico), Air Europa (Spain), Air France (France), Alitalia (Italy), China Airlines (Taiwan), China Eastern Airlines Corporation Limited (China), Czech Airlines (Czech Republic), Delta Air Lines (USA), Garuda Indonesia (Indonesia), Kenya Airways (Kenya), KLM Royal Dutch

Airlines (Netherlands), Korean Air (South Korea), Middle East Airlines (Lebanon), Saudia (Saudi Arabia), The Romanian Air Transport TAROM (Romania), Vietnam Airlines (Vietnam) and Xiamen Air (China). In 2009 Continental Airlines and Copa Airlines made a decision of leaving Sky Team. The first carrier joined Star Alliance the same year and Copa Airlines joined three years later. In 2009 Northwest merged into Delta Airlines (Pijet-Migon, 2012) (SkyTeam, 2020).

In 2020, with 19 members, SkyTeam flies to over 1,000 destinations in more than 170 countries. In 2019 the alliance flew 676 million passengers with 15,445 daily departures. In 2018 the group generated revenue of US\$154.9 million (Statista, 2020).

Picture 5: SkyTeam Network



Source: (SkyTeam, 2020)

3 Features of Membership in global alliances

In the current market, where many low-cost carriers are arising, national carriers are forced to face lower fares offered by their competitor. With competitive pressures and challenges airlines had to find a new strategy in order to generate profits. Some of the carriers launched subsidiary low-cost airlines. Like Air Canada with Tango or United Airlines with Ted. However, most of those low-cost daughters failed. Some of the airlines decided on switching their business model into low-cost carriers. An example of that was Aer Lingus, which decided to leave the Oneworld alliance. There are three main strategies to exploit lower costs with increasing service at the same time: merger and acquisition, launching a low-cost airline, or joining airline alliance. From those three options, airline alliances have been proven to be the most sustainable strategy (Salgado & Romero-Hernandez, 2005).

The most valuable features of those carriers are a wide network of domestic and international routes, high frequency of flights, frequent-flier programs, and business class seats. Airlines are expected to provide higher standard services than low-cost carriers, with seamless connections on domestic as well as on international flights. All of those aspects are possible and can be improved due to different types of agreements between carriers. Nowadays 9 out of 10 biggest airlines by generated revenue, belong to global alliances with the exception of Southwest Airlines (USA). As of March 2006, 59% of all worldwide available seat miles, which is the sum of the number of seats multiplied with the number of miles flown over all flights, are flown by three global alliances (Cetiner, 2012).

3.1 Benefits of strategic alliances

The benefits of joining global alliances are majorly based on economies resulting from code-sharing, flight scheduling, and price collaboration. There are five major benefits are connected to the network of airlines, economical aspects, marketing and branding, power of purchasing and learning.

3.1.1 Network

Airlines within alliances can decrease costs while expanding traffic without expanding the size of the network in two ways. The first one is by consolidating operation with other members of the alliance with overlapping networks, which will decrease the number of offered flights on a given route and increase the load factor on their routes which, will lower marginal costs. Due to the reduction of the number of contenders, alliances might gain more market power. The second option is to channel connecting passengers in code-share agreements from other members. That will result in an increasing number of passengers per route and decreasing the costs of passengers per mile. Moreover, through code-sharing airlines can offer more routes to their customers without any additional costs connected with flying to the new destinations. Additionally, the carrier is able to provide smoother connections for their flights with other members of the alliance (Tugores-García, 2012).

3.1.2 Power of purchasing

Joint purchasing gives members of alliances bigger negotiating power to achieve better deals from the suppliers. The most popular aspects of those negotiations are fuel, spare parts, maintenance, catering, airport charges, and cabin crew training. Due to joint procurement, Star Alliance starting in 2000 is able to save US\$10 million each year. This counts only as 0.1% of the total expenses of the airlines in alliance (Iatrou & Oretti, 2007). According to Star Alliance, the group is able to save around US\$27 million annually just by joint fuel purchase. Oneworld stated that they saved US\$37.5 million per year over the period 2000 and 2008. Star Alliance has been working by homogenizing the fleet of its members by building a common economy class cabin. With aircraft being the main assets of the airlines that will increase the power of joint procurement (Tugores-García, 2012).

Another example of the power of negotiation is the access to slots, which are time interval for scheduling arrivals and departures of aircraft. On average, 40% of the flights in the 20 largest airports in the world were connected to the dominant carrier and its aligned regional carriers. Controlling the hub allows the carrier to attract passengers with higher frequencies on connected flights. Moreover, it makes it more

difficult for small airlines to negotiate the slot at a given airport (Tugores-García, 2012).

3.1.3 Learning

Global alliances aim to standardize practices among their members. Learning processes might improve the efficiency of the airline and quality of airlines and the quality of services, which might result in higher profits. Moreover, members can share their knowledge and technologies that might improve the management of other carriers. It can also result in generating new solutions and improvements in understanding the customers' preferences with different backgrounds (Tugores-García, 2012). When an airline joins a global alliance, it has to go through the integration process. This may take up to several years and during that time a new member has to adapt their operations, IT systems, dress-code, office layouts, chain of command, hierarchy structure, customer service, fidelity program and safety standards (Iatrou & Oretti, 2007). The knowledge gained from the other, usually bigger members of alliances can improve the competitiveness of the airline.

3.1.4 Economical aspects

Being a member of an alliance brings many economical benefits, from generating higher profits from more efficient operation by decreasing the cost of ground handlings. Moreover, in airports where operations are limited, small airlines can rely on bigger member, which structure in that base is larger, to help with ground operations. An Airline is also able to cut costs on aspects as holding costs of inventories. Kilpi and Vespalainen (2004) researched that by pooling spare components of aircraft between members of the alliance the inventory levels decreased by 30%.

“Due to the geographic diversification provided by GALs (global alliances), airlines could potentially reduce the negative effects of economic downturns in their domestic market on average yield and/or load factor as other markets might be still sustaining demand. In addition, the dispersion in revenues between economic periods is reduced, limiting the tensions on the treasury, and reducing the amount of working capital required” (Tugores-García, 2012).

3.1.5 Marketing and branding

An airline that is a member of an alliance is able to sell tickets from its own distribution channels to any destination that the alliance offers, which potentially increases the brand loyalty within customers. The offer of a wide range of destinations together with attractive frequent-flyer programs, where passengers can earn mileage also from the flights they took with other alliance members, improves the image of the brand.

Airlines within alliances have access to indirect advertisement, which has a global range through alliance promotion. Moreover, members during their marketing campaigns can promote destinations of the global network of the alliance, thus they advertise other airlines and their added value. This is essential especially for small airlines since their partnership with bigger airlines can help with gaining the trust of potential customers as well as improving the image of services provided by the airline. In a long-time, the customer loyalty increases with the higher quality of services. Another benefit for the airline is the perception of high-quality service within the entire alliance. When carrier becomes a member of alliance it has to fulfill the standards when it comes to safety, quality, IT, and standards of customer service. Alliances require those in order to improve the image of the group as well as reduce the differences between members (Tugores-García, 2012).

3.2 Drawbacks of alliances

To enter the alliance, the airline has to fulfill different requirements, but that is just the beginning of what is expected from the airline. With the first few months or even few years airline has to go through a series of changes. The main reason for that is to integrate the carrier with other members and to standardize different practices among the entire group. While the idea behind it is noble, there is no assurance that all the changes made for the airline's benefit will in the end pay off. The adaptation new carrier has to undertake in a wide range of departments are very expensive and not all the practices that fit for one airline will be efficient for other company. Moreover, the one image for all the members of the alliance might also be unfavorable, since the airlines with the highest service provided to their passengers

might lose their credibility on behalf of those airlines which still struggle to provide on that level. Additionally, the more integrated the carriers are, the less of competitors they become. Carriers focus only on benefits of code-sharing agreements and exploitation of routes might lead to the unwillingness to pursue growth strategy and that makes carrier more dependent on the alliance.

To enter an alliance, the airline has to agree with the strategy of the group and share the same vision. The strategy is adapted to the current environment and might change drastically. If an airline does not agree with new changes, it can either follow those even if it is inconsistent with the vision of the carrier, or the second option is to leave the alliance. Both of those solutions are not ideal, but usually the airline decides to stay since the consequences of leaving seem too high (Tugores-García, 2012).

3.3 Small airlines in global alliances

There is no definition of small airline and the size of carriers or not officially categorized, thus the author for the need of this research defined it as an airline that carries less than 3 million passengers annually, with less than 100 daily departures. Currently there are four small airlines that are members of global alliances: Croatia Airlines in Star Alliance, Czech Airlines, Middle East Airlines, and Romanian Air Transport (Tarom) in SkyTeam. There is no member that is considered a small airline in Oneworld, but Fiji Airways, which is the alliance's partner, fits the definition. Nevertheless, with all the advantages that alliances provide, airlines still struggle to generate profits, thus some of them go bankrupt. In 2012, Malév Airlines declared bankruptcy, even so as they were a member of Oneworld alliance. Most recently, in 2019, the same happened with Adria Airways, which was part of Star Alliance. The majority of airlines in alliances are large and need a small, regional airlines to carry passengers to their hubs. That is why it is questionable, whether small airlines actually benefit from being a part of those agreements or they are only needed for other members.

3.3.1 Croatia Airlines

Croatia Airlines is the national flag carrier of Croatia with headquarters in Zagreb. The History of the airline goes back to 1989, when the first Croatian airline is registered under the name Zagreb Airlines. One year later, when first democratic elections took place in Croatia, the airline changed the name to Croatia Airlines. In 1991, the carrier signed an agreement with the Slovenian airline Adria Airways, and a year later the airline started operating international flights. The same year Croatia Airlines became a member of the International Association of Air Transport. In 2004, the airline officially joined the Star Alliance (Airlines C. , 2020).

In 2018, Croatia Airlines served 38 destinations in 24 European countries. That year the airline carried over 2.27 million passengers with a total of 28,003 flights. on average, the carrier had 76 daily departures from 39 different airports with the average passenger load factor of 73.5%. There are 959 employees working for the company, with 36 of them working abroad. As for 2019 Croatia Airlines had a fleet of total 12 aircraft of three different types: Airbus A 320-200, Airbus A 319-100, and Dash 8-Q400. The average fleet age was 14,6 years and the total capacity of the airline aircraft is 1380 passengers. Moreover, since the demand increases during summer, for the period between May and October airlines leases two CRJ 1000 aircraft both with 100 seats.

In 2018 operating revenue was US\$ 242676941. In comparison to the previous year it was a decline of 3.7%, but still was higher than in 2016. 88% of total revenue was from passengers' revenues, while cargo was only 1%. Operating expenses were higher than revenue in 2018, increasing by 2.9% in total. since 2017 The highest expenses were flight costs which was 33% including fuel costs, which arse the biggest expenses, air traffic services with 22%, and maintenance counted for 4%. That was the first time in three years that EBIT was negative. Croatia Airlines is a joint-stock company, where 97% of total shares belong to the Ministry of State Property of the Republic of Croatia. The next biggest shareholder is Zagreb International Airport with 1.7%.

In 2018, Croatian airlines signed 16 code-sharing agreements, of which 13 were signed between the carrier and other members of Star Alliance and three were with Skyteam members (Air France, KLM, and Alitalia). Those agreements give Croatia

Airlines the opportunity to expand its network not only on an international level but also on a truly global one. As 2018 carrier has signed agreements with United Airlines and Singapore Airlines, gaining access to really demanding markets. Nevertheless, none of those connections are direct. Every flight outside of Europe needs to have a layover in any of the major airport hubs that belong to the other members of the alliance. Usually the biggest members are monopolists on those hub airports and operate flights from outside of Europe (Airlines C. , 2019).

3.3.2 Czech Airlines

Czech Airlines is one of the oldest commercial carriers in the world and was founded on October 6th, 1923 under the name Czechoslovak State Airlines (CSA). The first flight took place two weeks later, and it was on the route between Prague and Bratislava. Their first international flight was to Zagreb in Yugoslavia in 1930, and later their network expanded by cities as Paris, Rome, and Moscow. During the Soviet times CSA bought Soviet aircraft such as Tupolevs and started to flying worldwide, especially to the countries allied to the socialistic bloc such as Cuba. After the Communistic era, the airline switched to Western- produced aircraft such as Airbus and Boeing. In 1993, when the Czech Republic was established, the name of the airline changed to Czech Airlines, but retained the CSA acronym (Rick Fawn, 2010). In March 2001 the carrier officially became a member of SkyTeam Alliance (SkyTeam, 2020).

In 2009 the Czech Ministry of Finance announced that the majority of the stake in the airline was for purchase and that started the privatizing process of Czech Airlines. In 2013 Korean Air acquired 44% of the joint-stock company, and since 2018, 97% of the company is held by Smartwings, the Czech low-cost airline (SeatMaestro, 2020).

Currently, Czech Airlines has 13 aircraft in their fleet: one Airbus A330, six Airbus A319, five ATR 72, and one Boeing 737-800. CSA offers 31 destinations in 21 countries. The majority of the flights are within Europe, but the airline also offers to fly to two countries outside Europe: Lebanon and South Korea. With an average of 87 daily departures, 2.6 million passengers choose to fly with them. This is the lowest number of transported passengers in three years. Since the acquisition took

place on 28.02.2018, the revenue of US\$ 332689670, is only covering only 9 months of operations. The profit for that period of time is estimated for around US\$17,34 million (Smartwings, 2019).

There were many visible changes after the airline joined the SkyTeam. The reduction of network process since 2003, caused by cooperation with other members, with the constant increase in revenues (Bohuslava Mihalčová, 2018). As of 2020, Czech Airlines has signed 26 code-sharing agreements that allow them to offer flights all over the World. Most of those agreements are between members of the alliance, but they also work with airlines like Etihad Airways (UAE) which is one of the biggest airlines, that do not belongs to any global alliance.

3.4 Case of Adria Airways

Adria Airways was Slovenia's flag carrier established in March 1961. In 1968, Adria started its first regular route between Ljubljana and the capital of Yugoslavia, Belgrade. In 1981, one of the aircraft crashed and all 180 people on board died. Ten years later, when Slovenia became independent, Yugoslavia banned the carrier from flying for three months. In 1995, the airline entered the first codeshare agreement with Lufthansa, and in 2004 Adria Airways joined Star Alliance. In 2016, Adria Airways was sold to German fund 4K Invest. In December of 2018, the airline's financial debts are the reason for Civil Aviation Agency to threaten to revoke the operating license. On October 2nd, 2019 Adria Airways initiated bankruptcy proceedings (STA, 2019).

In 2019, Adria Airways had the largest fleet in the company's history, consisting of 21 planes, three Airbus 319s, nine Bombardier CRJ900s, and three CRJ700S and six Saab 2000s. With that number of aircraft, Adria Airways became the biggest airline in the Balkans. In the last year of operation, the carrier offered 25 destinations, but in the week before the bankruptcy Adria was providing flights only on the Ljubljana-Frankfurt route. (SCB, 2018). Adria Airways had signed code-sharing agreements with Aeroflot, Air France, Air India, Air Serbia, Austrian Airlines, Brussels Airlines, KLM, LOT, Lufthansa, Montenegro Airlines, SAS, SWISS and Turkish Airlines. Most of the agreements were within the members of Star Alliance (CAPA, 2017). In 2017 Adria carried over 1.2 million passengers, which was a 10%

increase from the previous year. In 2018 airlines expanded their network by 7 new destinations. In the first half of 2018 carried 577,233 passengers, which was more by 8.6% in comparison to the same period in 2017. The number of flights also increased by 2.4%, which was almost 10,000 flights in the first half of the year. Moreover, the operating revenue was higher by 17.7% than in 2017. (SCB, 2018). Nevertheless, that was not enough for Adria Airways to keep on operating and when they announced the bankruptcy the carrier was US\$ 6744495,60 in debt (Adria Airways, 2020).

Adria Airways financial struggle started back in 2010, when the carrier started to generate losses. In 2016, after 4K Invest acquired shares of the airline, Adria Airways bought 99.1% of Swiss Darwin Airline. Expansion of fleet, introducing new routes, and the purchase of Darwin was too much to finance for 4K Invest, especially when the airline was constantly generating losses (Obućina, 2017). Adria Airways' bankruptcy was caused by many factors such as overstretched expansion or adding new routes to airlines networks and neither new investors nor help from the global alliance were not able to change the fate of the carrier.

4 Airlines outside of global alliances

Being a part of a global alliance is definitely beneficial, nevertheless, the majority of airlines do not enter strategic agreements. The low-cost usually avoid entering one, because their vision or strategy usually differs from what alliance has to offer. Yet, international airlines such as Emirates or Etihad Airways are not planning on entering any of the global alliances, because they have their own strategy to become truly global airlines. Since the biggest advantage of being in a global alliance is expanded network, airlines outside of those agreements focus on so-called code-share agreements, which allow airlines to reach new destinations without the need of compromising carrier's strategy. Airlines also seek different types of collaboration, sometimes they decide to enter a strategic partnership with one other airline, but it still leaves the carrier with the freedom to make own choices for the company's future. Another important reason why airlines decide not to join is because entering the airlines is time as well as cost consuming and new members cannot enjoy the benefits right away therefore many airlines simply are not able to afford such a financial stretch.

4.1 Alternative of strategic alliances

Three biggest airlines from Arabian Gulf – Etihad Airways and Emirates do not belong to any global alliance, nevertheless, their network has a global extent. The geographical location of the Arabian Gulf, between Europe and Asia and Australia, allowed those carriers to exploit the hub and spoke strategy. With such a competitive advantage they were able to overcome rather low domestic demand. Due to their location there gained another benefit which focus on the routes between secondary airports. Traditional network of airline or alliances would consist of three flight legs: a short-haul flight which will connect the origin spoke with a hub, in alliance this usually is operated by small, regional airlines, an intercontinental long-haul between two hubs, which would be operated by biggest members, and a short-haul flight to the destination spoke, with again regional carrier. Gulf airlines operate differently, they use their hub as a global connector, thus they only need two long-haul flights instead of three, like their competitors. That allows them to save costs on airport

chargers as well they are able to provide higher services to their customers (Tugores-García, 2012).

Even though the prices offered by Gulf airlines might be higher than their competitors, the lack of additional flight seems to be more encouraging to the passengers than lower tariffs. In 2011 Emirates became a leading airline in the Düsseldorf-Asia markets, offering two daily flights from Germany's secondary airport to Dubai and from there to the rest of the carrier's network. It came as a surprise for Lufthansa since Star Alliance other members are offering significantly lower prices (Tugores-García, 2012). Another important factor in Gulf's airline's strategy is brand recognition. Emirates are spending on marketing 4% of their annual revenues, which is especially visible in the sponsorship of many international sports events with global range (O'Connell, 2011).

An important part of the Arabian Gulf's airline strategy is code-sharing alliances with partners around the globe. According to the airlines' websites, Emirates has 21 code-shared partners and 130 interline agreements in 61 countries, adding to the airline's network an additional 5,250 destinations. 51 shared code agreements have Etihad, which is working with airlines from all three global alliances. This type of agreement is an essential part for Gulf airlines, they are benefiting in an extended network and better flight schedules, without a need of entering a strategic partnership, therefore the airlines' vision and mission are not compromised with other members of those agreements. Since the location of Gulf's hub airports, many European, American and Asian airlines benefit from code-shared agreements with those three airlines.

There is only one airline from the biggest three for the Arabian Gulf that joined the global alliance and it is Qatar Airways. Currently, the airline has 23 shared-code agreements, mostly with airlines from the Oneworld alliance (Qatar, 2020).

Picture 6: Route maps over 1500 miles for three largest Gulf carriers: Emirates (red), Etihad Airways (yellow), and Qatar Airways (pink)



Source: (Tugores-García, 2012)

4.2 FlyBosnia

FlyBosnia was registered in November 2017 in Sarajevo as a flag carrier and received Air Operator Certificate on January 11th, 2019. On 22nd of December 2018, the carrier received first Airbus A319 with 156 seats as a lease from a company called AerCap (CAPA, 2020). The airline currently flies to Jeddah (Saudi Arabia), El-Qassim (Saudi Arabia), Kuwait (Kuwait), Mostar (Bosnia and Herzegovina), Riyadh (Saudi Arabia), Rome (Italy) and Sarajevo (Bosnia and Herzegovina). The main target group of FlyBosnia is religious tourists and since more than half of the country's population are declared Muslim, the airline decided on connecting Europe and Saudi Arabia. FlyBosnia does not have any code-sharing agreements (FlyBosnia, 2020).

Looking at the aviation history of Bosnia and Herzegovina there were five national carriers only in the past 30 years. In 1991 there was Air Commerce that was operating only for a year, because of the outbreak of the Bosnian War. Later, in 1994 Air Bosnia was established, but in 2003 the airline collapsed. The airline was resurrected by the government and under the new name B&H Airlines operated until 2015. In the meantime there were other carriers such as Bosnian Wand Airline and Arnoro, but they both collapsed within a year. FlyBosnia, which was set up by Al Shiddi Group has to overcome problems, that previous airlines were not able to do (Fabinger, 2019).

Looking at the airline's current situation, it is obvious that it is struggling a lot to stay afloat. According to Independent Balkan News Agency by November 2019, FlyBosnia was forced to dismiss almost half of the entire workforce and was struggling to pay wages to the rest of the workers. Moreover, the airline is in debt with suppliers and Sarajevo Airport. Another problem for the airline is the problems to attract passenger and the load factor on some routes are below 10%. Nevertheless, the airline is planning on leasing another two Airbus A319. FlyBosnia needs to remember the case of Adria Airways and poor results of extending over the airline's capability (Pajaziti, 2019).

Picture 7: FlyBosnia Network



Source: Author's picture

4.3 Air Serbia

Air Serbia was founded in June 1927 under the name Aerput in Yugoslavia and was a national carrier for the Kingdom of Serbs, Croats, and Slovenes, and then of the Kingdom of Yugoslavia. The first regular route was between Belgrade and Zagreb. In 1947 the airline changed the name to JAT and in 1961 the carrier became a member of IATA. In 2013 the airline started to search for strategic alliances in order to secure the future of the airline. Later this year Etihad Airways acquired 49% of share in newly rebrand Air Serbia (AirSerbia, 2020).

Currently the fleet of Air Serbia consists of 21 aircrafts, one Airbus A330, 2 Airbus A320, 9 Airbus A319, 3 Airbus 737-300, 3 ATR 72-500 and 3 ATR 72-200. After entering the strategic relation with Etihad Airways the fleet grew within 7 years by 10 aircrafts. In 2018, the load factor on those aircrafts was 72% with over 2.8 million passengers carried. With a total of 14 code-shared agreements the airline is able to reach 94 destinations. Nevertheless, according to Serbian Monitor, the airlines still receives help to generate the profits. In 2018, the Serbian government gave to the airlines 21 million euros as an aid (Bjelotomic, 2019). Even with constant losses, Air Serbia is planning to open six new routes in 2020. From Belgrade the carrier would be flying to Geneva (Switzerland), Florence (Italy), Lviv (Ukraine), Chisinau (Moldova), Rostov on Don (Russia), and Amman (Jordan). Moreover, the airline is planning on increasing of new frequencies on already existing routes such as Prague, Zagreb or Skopje.

Picture 8: Air Serbia Network



Source: Author's picture

4.4 Ukraine International Airlines

Ukraine International Airlines (UIA) were founded in 1992 by the Ukrainian State Association of Civil Aviation and GPA, which was the world's biggest lessor of aircraft. In 1996 Austrian Airlines and Swissair became a shareholder of the public-private entity. In the beginning, the routes of the airline were mainly between Ukraine and Western Europe with the point to point strategy. 18 years later UIA became a key player in Ukraine's aviation market, holding 20% of the business segment. Between 2009 and 2013 airlines decided to change their vision and in order to stay competitive the airline decided to switch from operating point to point and become a network carrier with the hub in Kyiv Boryspil International Airport.

In 2020, UIA has 35 airplanes in the airline's fleet: 3 Boeing 777-200ER, 2 Boeing 767-300ER, 23 Boeing 737, 5 Embraer- 190 and 2 Embraer- 195. That allows UIA to carry around 6 761 passengers in its aircrafts. UIA flies to 38 countries in Europe, Asia, America, Africa, and Middle East operating 1100 flights a week. UIA has signed a code-share agreement with 11 airlines which allows airlines to reach over 3000 new destinations worldwide (UIA, 2020).

In 2017 Ukraine International Airlines carried almost 7 million passengers, which was an increase of 16,4% in comparison to previous years. Moreover, the traffic via Kyiv Boryspil International Airport increased by 18% which gave 6.25 million travelers. Nevertheless, according to Kyiv Post, the airline's financial performance is very poor. In 2018 UIA had a loss of 100 million USD, which was nine times more than the loss in the previous year. The company's CEO Yuri Miroshnikov stated that the core of financial problems are low- costs airlines and other means of transportation such as rail, with which UIA has to rival. The routes that bring losses to the company are usually domestic and international flights are still profitable. Additionally in 2020 one of UIA aircrafts was shot down by Iran, with 176 passengers on board. That puts airlines in an even harder position than it was in previous years (Pickrell, 2020).

5 Conclusions

Nowadays, when the aviation industry has to face the biggest crisis in the whole history of flying, choosing the right strategy is more crucial than ever before. Carriers have many options they can follow, the strategy of the traditional, flag carrier, or the more innovative strategies represented by airlines from the Arabian Gulf. It is not necessary to enter agreements in order to be able to reach new markets, since the new laws that were introduced in 1978 with the Deregulation Act, which was the beginning of the industry we know nowadays. With the rising popularity of low-cost airlines, national carriers in order to be competitive have to offer to their passengers something that the cheap airlines are not able to. Therefore many airlines decide on joining global alliances to distinguish themselves from the other carriers.

Becoming a member of one of three global alliances bring many benefits. Airline is able to offer more routes and destinations to their passengers and the higher frequencies of flights allow travelers to choose the one it fits better with their needs. Moreover, the brand recognition is stronger due to the indirect marketing that the alliance brings. Since within the agreements there are many different members, the purchasing power is higher and the airlines are able to share their knowledge in order for others to become more efficient. This is definitely a good strategy for big airlines, and the numbers prove that, 9 out of 10 biggest airlines are part of global alliances. Nevertheless, when asking whether the benefits of being a part of a global alliance outweigh the drawbacks for small airlines, the answer is not that easy.

History has shown, that small airlines within alliances did not have great financial performances and some of them went bankrupt. The most recent was Adria Airways, which ended their operation in 2019, however this fate was mostly caused by poor management and overexpansion rather than costs and drawbacks associated with alliance. Looking at the other small airlines that are currently in global agreements, especially the ones that were analyzed: Croatia Airlines and Czech Airlines, both of them are having rather good financial results. Their revenues are not the highest, but it is necessary to remember, that with current events and the new trend of shame of flying, most of the airlines are touched by those. Both of those airlines can offer a wide range of destinations as well as united with the other

members of their alliance frequent flyer programs. After entering the agreements there were many visible, positive changes the airlines went through, for example, the reduction of network process which allows the companies to generate high revenues. Nevertheless, there is a high probability that the airlines had to compromise to some extent their own strategy and vision in order to fit into to alliance and to be united with the rest of the members. The decision whether being a part of this agreement is more beneficial than not is very individual and each airline needs to analyze both sides of that membership and see how the situation looks for them.

In the aviation industry there are a couple of airlines that have proven that there is no need for a carrier to enter global alliance in order to survive or even to have a multinational reach and to become one of the biggest in the world. Those are Southwest Airlines, Etihad Airways or Emirates, and neither of them were interested in joining global partnerships. Their strategies differ, but one important feature is a wide range of code-shared partnerships. That is a way to overcome the strength of alliances, which are able to offer flights to the majority of the countries. Code-shared agreements allow airlines to fly to a higher number of destinations without a major interference in the company's strategy.

When looking at the current situation of the small airlines and whether they are able to survive without the global alliance many factors need to be analyzed. First of all, it is possible to grow into global airlines without joining the help of alliance. Secondly, the airlines that were analyzed FlyBosnia and Air Serbia, did not have the best financial results, however, it was caused by many different factors. Currently, it is not the best timing to start the operations like FlyBosnia did, due to the fact, increasing popularity of Flygskam and more recent event outbreak of Coronavirus. Moreover, both of the companies are based in countries, according to the World Bank, where combined GDP does not exceed US\$72 billion. This might indicate that especially in the case of Air Serbia, the country cannot afford to invest in the national carries. Nevertheless, Ukraine International Airlines were able to overcome that problem and they were able to grow into a medium-size carrier. Even though the airline was able to gain a stable position in the market, UIA still faces financial

troubles and the crash of an airplane combined with the current crisis and rising trends of protecting the environment do not help to generate profit.

It might seem that entering a global alliance would help solve those problems, yet it could multiply them. Joining a new alliance is not cheap, since the new member needs to unify their practices with the ones alliance and other carriers are basing on. Moreover, the airline needs to adapt their operations, IT systems, dress-code, office layouts, chain of command, hierarchy structure, customer service, fidelity program and safety standards, which usually takes months or even years and cost a lot of money. Therefore, before the airline will enjoy the benefits of being a part of the alliance, it first needs to pay a high price. That is why before making the decision of becoming a part of the alliance, the airlines have to make sure if they can afford the transition period.

For those two questions concerning small airlines and global alliances there is no one correct answer. Every airline has to approach those in their own, individual way, and understand all of the benefits and all of the drawbacks that they will have to face. The carriers would also have to recognize whether and to what extent their own strategy would be compromised by the standards of the alliance. Therefore the author is not able to provide one clear answer, only can present the general findings, which might help the airlines in answering them.

Looking at the current situation with the focus on Europe and the challenge that the entire economy needs to face it seems like entering global alliances might not be the best move for the airlines. While the majority of borders are being closed most of the aircrafts are grounded. The panic that the Coronavirus in causing might decrease the number of people flying abroad for vacations and many businesses might continue on working remotely, thus the number of passengers might drastically drop. Therefore, there is no need for airlines to increase the number of new destinations and passengers will not use that often the privileges gained from unified frequent flyer programs, and as mentioned before those are the main benefits of joining the alliance.

5.1 Limitations

While conducting the reach, there have been numerous of the limitations concerning data availability, that have to be considered in the findings of the paper. Due to the fact that aviation is a very competitive business, companies are not willing to share much information, especially when it concerns their strategies. Therefore, the author was not able to gain a full insight into airline decision-making strategies. Moreover, there was no information available concerning the exact process of joining the alliances, such as criteria or the cost. Additionally, the author was not able to gather the financial data on airlines outside of Europe. Those impose rather huge limitations on the research.

Given the timeframe for this research also influenced the author's findings, since it did not allow for to conduct more detailed research especially concerning the examples of airlines.

Another limitation was the lack of primary source, caused by the unwillingness of the airlines to be a part of the interview concerning the topics of global alliances and the benefits and disadvantages connected to it. Due to that fact author was not able to gather insight data which was necessary to access the airlines performances. This definitely put a major constrain on this research and the findings.

The last limitation was concerning the language barrier. Considering the high number of airlines, that the author had to investigate, the number of information available in English was rather limited, therefore the author could have missed some important details.

5.2 Implication

The main aim of the research was to analyze the position of small airlines within the global alliance as well as to present benefits and drawbacks to the carriers that are not a part of those. The findings of this paper might affect the view of the position of global alliances.

Ideally, the research will be used by small airlines worldwide, while making the decision whether or not to join the global alliance. The carriers could look into the general situation as well as look into the exact examples of airlines that are already

a part of those agreements. Moreover, the companies have the ability to see the position of small airlines that are not members of global alliances and their performances which will give them a full overview of those types of agreements. Therefore, the research findings can contribute to changes in the business field especially connected to the aviation industry.

5.3 Future research direction

Despite the fact that the research has been conducted in a thorough way there are still some space improvements. In order to have a complete picture of the issue further investigation has to be done. The lack of primary sources is a major limitation in the current paper therefore the author would recommend contacting airlines during future research. That would give the author the insight information that is missing in the current paper. Moreover, the author focused the companies' analysis on European carriers, while did not investigate the small airlines in different parts of the world, where the research could show different outcomes.

Additionally, in further research not only small airlines but also medium and big size companies could be investigated in order to see whether there are any differences in benefits gained from joining an alliance between small and big carriers. Later those differences and reasons behind them could be investigated. Further research could investigate the position of small airlines and the current situation of the entire industry after the Coronavirus crisis.

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