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Dynamic Capabilities Evolution under Change of Ownership – A Case Study of how Austrian Airlines became Dynamic upon Privatization

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Table of Abbreviations

CCO	Chief Commercial Officer
CEE	Central and Eastern Europe
CEO	Chief Executive Officer
EU	European Union
FSC	Full Service Carrier
IATA	International Air Transport Association
IT	Information Technology
LCC	Low Cost Carrier
M&A	Mergers and Acquisition
O&D	Origin and Destination
ÖIAG	Österreichische Industrieholding AG
RBV	Resource-Based View
TWA	Trans World Airlines
TX	Texas
USA	United States of America

Abstract

In den letzten zwanzig Jahren gab es in der Austrian Airlines Group eine Vielzahl an Veränderungen der Strategie, des kompetitiven Umfelds, der Finanzergebnisse, sowie der Zusammensetzung des Unternehmens. Die Betrachtung der Entwicklung der Unternehmensgruppe unter Berücksichtigung von Dynamic Capabilities Aspekten zeigt auf der einen Seite auf, dass Dynamic Capabilities vorhanden sind. Zwischen 1998 und heute gab es Opportunities, die erkannt und verfolgt wurden. Des Weiteren konnten auch Rekonfigurationen in der Form von Post-Merger Integration wahrgenommen werden. Auf der anderen Seite lagen offensichtliche Optimierungspotentiale über Jahre hinweg brach. Der empirische Teil dieser Arbeit, die zum einen öffentlich zugängliche Daten analysiert und zum anderen aus Interviews mit aktiven und ehemaligen Führungskräften besteht, ergibt dass zum einen die Besitzstruktur eine essentielle Rolle bei der Lebbarkeit von Dynamic Capabilities spielt, zum anderen bedarf es Vorstandsmitgliedern mit bestimmten Persönlichkeitstypen und Erfahrungsprofilen, um die Opportunities vollständig ausschöpfen zu können. Dementsprechend wird empfohlen, das Schaffen geeigneter Besitzstrukturen und Managementstrukturen als Dynamic Capabilities zu betrachten.

Throughout the past twenty years, the Austrian Airlines Group has encountered numerous occurrences of change in strategy, the competitive environment, financial results and composition of the organization. Analysis of the development of the organization with regard to dynamic capabilities aspects provides insight that the organization does have dynamic capabilities at its disposal. Since 1998 several opportunities were sensed and seized. Moreover reconfiguration of the organization was witnessed in the form of post-merger integration. On the other hand obvious potential for improvement of organizational performance was ignored for years. The empirical part of this thesis addresses the question of the non-seized potentials, thereby utilizing published data on the one hand and data retrieved from interviews with active and former managers on the other. The empirical analysis reveals that ownership of the organization and personality and experience of the managers play vital roles in determining applicability of dynamic capabilities and ability to seize opportunities to their full extent. Accordingly, implementation of appropriate ownership and management structures should be considered dynamic capabilities.

1 Introduction

Several firms operating in industries as fast-paced as the airline industry are dependent on comprehensive change capabilities to keep up with the volatility of the environments they are exposed to (cf. *Müller* 2010, p. 3). Numerous sudden and unexpected events in the past such as the oil crisis resulting from the Iran-Iraq war in 1980, the collapse of the dot.com boom in 2000 and the terrorist attacks committed on September 11, 2001 have impacted the airline industry (cf. *Doganis* 2006, p. 13-14). In addition to events not invoked within the industry, disruptive innovations, such as the Low Cost Carrier concept of Southwest Airlines (cf. *Raynor* 2011, P. 32 – 33) and Computer Reservation Systems and Frequent Flyer programs (cf. *Driver* 1999, S. 135 - 140) have sustainably shaped the nature of the industry. Further complexity in predicting future development is given by interdependency between unexpected events. As an example, the US airline deregulation act passed in 1978 has raised differentiated ways of dealing with the 1973 oil crisis throughout the industry (cf. *Ben-Yosef* 2005, p.5). Given the sudden and unpredictable nature associated with potential occurrence of events impacting the airline industry, firms are - in order to establish sustainable growth - required to constantly maintain a state of quick configurability.

1.1 Review of the Situation and Current Challenges

The low margins achieved by several carriers in today's airline industry (c.f. *Zuidberg* 2014, p.1) are susceptible to numerous factors including but not limited to fuel prices, deregulation and declining yields (cf. *Doganis* 2006, p. 17ff), political stability of target markets and force majeure (cf. *www.austrianairlines.ag* 2011) and competition from Low Cost Carriers (cf. *Groß/Schröder* 2007, p.13) and Middle Eastern network carriers (cf. *O'Connell* 2011, p.339).

Diminishing political stability of key markets and force majeure events targeted Austrian Airlines heavily in 2011. The tsunami in Japan, floods in Thailand and the Arabian Spring were occurrences, which caused the firm to fail its financial goals for 2011 cf. *www.austrianairlines.ag* 2011). These are examples for heavily impacting events, which - as a result of their unpredictability - cannot be mitigated or even considered in scenarios beforehand. Similarly, fuel prices are beyond control of the airlines and are thus factors airlines are compelled to react to with measures such as fuel hedging (cf. *Berghöfer/Lucey* 2014, p. 124). These factors are not within the main focus of the Dynamic Capabilities research, which is why they will not find further mentioning in this thesis.

Strategic development of competitors on the other hand can be closely monitored, analyzed and set into context with a firm's own strategy. This delivers valuable input to strategic management, which is strongly focused on generating competitive advantage (cf. *Güttel et al.* 2012, p.2). Furthermore, Austrian Airlines as a long-standing player in the European aviation industry is endangered to feature managerial cognition based inertia and path dependence in setting new strategic directions aiming at coping with today's competitive environments (cf. *Tripsas/Gavetti* 2000, p.1147f).

1.1.1 Threats: Competition

1.1.1.1 Gulf Carriers

Competitors from the Gulf region such as Emirates, Qatar Airways and Etihad are growing their fleets and hubs aggressively, hence gaining market shares partially by exploiting global growth of the aviation industry, partially by invading markets currently and previously served by legacy global network carriers, such as Lufthansa or Qantas (cf. *O'Connell/Williams* 2011, p. 15). Moreover, high levels of customer service (cf. *O'Connell/Williams* 2011, p. 16) are offered while undercutting pricing of legacy carriers (cf. *O'Connell* 2011, p. 345). This is possible, amongst others by means of:

- utilizing less expensive labor force (cf. *O'Connell* 2011, p. 343)
- being exposed to less regulatory labor limitations including pension systems and unions (cf. *O'Connell* 2011, p. 343-344)
- taking benefit of governmental subsidies (cf. *www.economist.com* 2015)
- maintaining modern fleets (cf. *O'Connell* 2011, p. 343)

From a geographical point of view, the Gulf carriers are able to exploit a given advantage: Qatar and the United Arab Emirates are located half-way between Western Europe and South-east Asia, providing one-stop connectivity between major European and Asian hubs (cf. *O'Connell/Williams* 2011, p. 16). In addition to serving major hubs, Gulf carriers, especially Emirates serves secondary European, Asian and African destinations, hence penetrating previously unexplored markets (cf. *O'Connell/Williams* 2011, p. 16). Further geographically fostered opportunities are exploited by means of sixth-freedom rights (cf. *Holloway* 2008, p. 398). Sixth-freedom rights are bilateral agreements negotiated individually between the two involved countries and allow airlines registered in a specific country to carry revenue passengers from the other country to a third country (cf. *Forsyth et al.* 2013, p. 346). As an

example, Emirates, an airline registered in the United Arab Emirates (cf. *Flottau/Plath* 2012, p. 100) exercises fifth-freedom rights by offering revenue service between Milan, Italy and New York, USA (cf. *Reed* 2015).

Although growth rates of gulf carriers have reached levels approximating at 20% in the past, the future foresees continuous growth at lower rates due to limiting factors including (cf. *O'Connell/Williams* 2011, p. 16):

- loss of purchase power due to inflation
- airspace capacity limitations
- competitors providing O&D service as an alternative to connecting through Dubai
- regional stability

While the prospect of declining growth of the three major Gulf carriers may have a calming effect on European legacy carriers in long term, the type of threat remains present for the near future: the lifted sanctions on Iran's economy (cf. *Paivar* 2016) and the new Istanbul airport planned to replace Ataturk International (cf. *Kitching* 2016) may prompt the involved carriers, IranAir and Turkish Airlines, to implement business models similar to the Gulf carriers. In the case of Turkish airlines, similarities are already visible to date: the airline has grown rapidly over the past years and connects major and secondary European airports via Istanbul with a multitude of Asian destinations (cf. *Dursun et al.* 2014, p. 110). The quality of passenger service and pricing strategies are similar to those of Emirates (cf. *Dursun* et al. 2014, p. 114).

1.1.1.2 Low Cost Carriers (LCC)

The Low-Cost Carrier concept was unknown to the European airline industry prior to the late 1990s (cf. *Forsyth et al.* 2013, p. 181) Prior to LCCs entering the European market, the industry comprised three types of airlines (cf. *Bergmann* 2015, p. 427):

- Full Service Carriers (FSC), alternatively referred to as legacy airlines (e.g. Lufthansa)
- Charter airlines, which for the most ferry leisure passengers to holiday resorts
- Regional carriers, which serve low-volume routes using small aircraft types

Founded in 1971 in Dallas, TX, USA, Southwest Airlines was the first LCC worldwide (cf. *Groß/Schröder* 2007, p. 17). Ryanair, although founded in 1985 (cf.

http://corporate.ryanair.com n.d), becomes familiar as Europe's first LCC in 1998 following the Southwest Airline concept (cf. *Forsyth et al.* 2013, p. 157).

In general, LCCs gain market shares in Europe by offering tickets at lower prices than the legacy carriers do (cf. *Forsyth et al.* 2013, p. 158). This is accomplished by maintaining more efficient cost structures, which is achieved by taking the following organizational measures (cf. *Forsyth et al.* 2013, p. 158):

- Organization-internal reduction of production efforts by keeping the entire supply chain simple and efficient
- Maintaining a short- and medium-haul network, mainly between secondary airports to avoid high airport-related fees
- Maintaining fleets of uniform aircraft types
- Usage of direct sales channels (e.g. booking via the website) only
- Usage of yield management systems implementing pricing based on the timespan between booking and departure
- Reduction of service levels towards customers to a bare minimum by elimination of supplementary inflight and ground services

The LCC model, which allows airlines to produce 40-50% below unit costs of FSCs (cf. *Forsyth et al.* 2013, p. 158), finds approval of the European consumers: by 2015, 28% of flights within Europe are operated by the 20 European LCCs (cf. *www.dlr.de* 2016, p.8).

Although several airlines running the LCC concept, such as Ryanair and Easyjet, have grown aggressively in the past 10 years, (cf. *corporate.ryanair.com* n.d; *www.planespotters.net* 2017b), the LCC business is not without risks: the demise of SkyEurope has demonstrated how fragile organizational structures fed solely by low-budget airline ticket sales can be: the downturn following the economic crisis in 2008 signed the death sentence of the already severely tarnished Slovakian LCC (cf. *Milmo* 2009), which had been operating since 2001 (cf. *https://de.wikipedia.org* 2016).

1.1.1.3 Consequences for European FSCs

On a global scale, airline passengers have become more price conscious. Between 2014 and 2015, the number of passengers, for whom ticket price is the most relevant selection criterion, has increased from 13% (cf. *www.iata.org* 2014, p. 56) to 14% (cf. *www.iata.org* 2015, p. 51). The growing market share currently held by European LCCs at 28% (cf. *www.dlr.de* 2016, p.

8) support observations of growing price-consciousness among European consumers. At the same time, passengers expect customer service levels, which are currently met best by the Middle Eastern network carriers (cf. *Laming/Mason* 2014, p. 24). These recent developments pose risks for European FSCs, which have networks within Europe as well as long-haul destinations. While the LCCs offer inner-European point-to-point connections at lower unit costs than FSCs do, load factors of the FSCs' long-haul routes are eroded by Gulf carriers, which route passenger streams through their middle-eastern hubs offering higher passenger service levels at lower prices.

These developments in the competitive environment demonstrate that in addition to unexpected events, which may affect any airline, the European FSCs are threatened by competitors aiming at gaining their market shares. Several key players in the competitive environment of the European FSCs handle quickly and creatively. By viewing the current competitive environment of Austrian Airlines, several examples can be seen:

- Ryanair took immediate advantage of Malev's demise in 2012 and opened routes formerly served by the defunct Hungarian flag carrier (cf. *http://diepresse.com* 2012)
- Ryanair has hubs at European capital airports without home carriers, such as Bratislava (cf. *Maslen* 2014)
- Ryanair operates from secondary airports nearby headquarters of European FSCs, such as Bratislava, Frankfurt Hahn and Brussels Charleroi and advertises low-cost alternatives to using the FSCs and their home base airports (cf. *Groß/Schröder* 2012, p. 51).
- Emirates has upgraded one of their two daily connections between Dubai and Vienna to be served by the Airbus A380, which is the world's larger passenger aircraft (cf. *wien.orf.at* 2016)

These circumstances prompt the European FSCs to rethink their business models and to refine their products, which in several cases requires implementation of change projects and subsequent establishment of a state of quick changeability.

1.1.2 Weaknesses

1.1.2.1 Identifiability of Change and Transformation Triggers

The recent history of the Austrian Airlines group contains numerous events constituting viable triggers for change projects or firm transformation. These include the acquisitions of Lauda Air, Rheintalflug and Tyrolean Airways (cf. *www.austrianairlines.ag n.d*), substantial stra-

tegic reorientations such as Focus East (cf. *www.austrianairlines.ag* 2015) and several restructuring efforts aiming at becoming profitable. Each of the abovementioned events would have suited for a Dynamic Capabilities driven change. Nevertheless, Austrian Airlines continued to suffer from annual losses, fleet diversity and rivalries between employees until Jaan Albrecht, who was appointed as CEO in 2011 managed to achieve a financial turnaround, fleet commonality and uniform labour contracts during his 4-year period with Austrian Airlines (cf. *www.austrianairlines.ag* 2015c).

1.1.2.2 Political Environment

Airlines operate in environments, which are dependent on local politics. Recent examples of how political decisions have harmed the Austrian airline industry include:

- The environmental tax applied to each issued ticket introduced in 2011 by Josef Pröll (cf. *Schneid* 2014)
- The verdict passed by the federal administrative court prohibiting construction of a third runway for the Vienna International Airport (cf. *http://diepresse.com* 2017)

1.2 Aims and Research Objectives

Despite volatility (cf. *O'Connell/Williams* 2011, p. 3), high risks and low margins, which dominate the industry, numerous key players have managed to sustain for many decades. As an example, Austrian Airlines has been operating since 1958 (cf. *www.austrianairlines.ag* 2015). In the case of Austrian Airlines, previous state ownership has protected the firm against insolvency in years of unprofitable operations (cf. *www.austrianairlines.ag* 2010). Privatization however, which has been implemented for Austrian Airlines in 2008 (cf. *www.austrianairlines.ag* 2010) demands profitable operations to secure sustainable survival.

In Europe's competitive aviation environment, establishment and maintenance of competitive advantage is essential. Due to the number and nature of factors influencing the airline industry, successful strategies are required to be constantly monitored against their contributions to maintenance of competitive advantage. Strategies, which stop contributing to a firm's success, need to be exchanged for successful strategies quickly. Examples proving this point are given by airlines, which had been profitable in 1999 and were making losses as early as 2000. Ultimately they disappeared in 2001. (cf. *Doganis*, 2006) These airlines include previously popular names, such as Swissair, Sabena and TWA (cf. *Doganis*, 2006).

Given the brutally fast-paced and volatile nature of the industry paired with harsh requirements for profitability, privately owned airlines today are forced to closely plan and implement growth strategies to facilitate expansion (cf. *O'Connell/Williams* 2011, p. 16). Early Dynamic Capabilities research, which challenges the Resource Base View as the sole source of competitive advantage, has identified a dynamic capability being 'the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments' (cf. *Teece et al.* 1997, p.516). Other dynamic capabilities contain competences to create market change (cf. *Eisenhardt/Martin* 2000, p.1107) or to adequately pre-assess, integrate and distribute common resources in case of mergers and acquisitions (cf. *Eisenhardt/Martin* 2000, p.1109). These dynamic capabilities and others are assessed against their availability, applicability and relevance for the recent development of Austrian Airlines.

Managerial cognitive capabilities are examined and cross-referenced to dynamic capabilities to provide a CEO-personalized view on key decisions made in the sensing and seizing phases in recent past of the airline's transformation attempts. In particular, the acquisitions of Lauda Air and Tyrolean Airways are analyzed against the dynamic capabilities of pre-assessing potential acquisition targets paired with the managerial cognitive capabilities of perception and attention. This analysis shall provide insight on the number of options identified to achieve the goal. Given the goal was growth, verification shall be sought whether other, more compatible airlines in terms of corporate culture and fleet could have been on the table, or whether organic growth could have been a viable alternative.

Finally, the findings derived from the literature on Dynamic Capabilities and Managerial Cognitive Capabilities and verified against the recent development of Austrian Airlines shall provide insight on whether airlines as traditional and formerly politically influenced as Austrian Airlines is capable of change, which is sufficiently quick and radical to sustain in environments as volatile and competitive as the airline industry.

Finally, and most importantly, the temporal development of dynamic capabilities under influence of specific external factors, such as ownership and CEO background shall be viewed. The outcome shall serve as a basis for defining new dynamic capabilities. This question arises when viewing the history of the Austrian Airlines Group with regards to the circumstance that obvious turnaround measures were not taken for many years. Two prominent examples include the fleet development and the employees' collective contracts. Fleet redundancies were not resolved until 2013, neither were the collective contracts consolidated until then, even though the acquisitions, which caused these redundancies were made in the late 1998, 2001

and 2002. In view of these examples, the question arises, which were the factors that hindered dynamic capabilities to unfold in resolution of the redundancy problems that persisted.

1.3 Structure

The introduction describes the current situation of the airline industry and why dynamic capabilities and managerial cognitive capabilities are relevant for survival and sustainable growth of the European legacy network carriers. Moreover, specific environmental analysis of the competitive environment of Austrian Airlines is described as well as weaknesses of the airline, which persisted for years prior to sustainable resolution, followed by the aims and research objectives of this thesis (Chapter 1).

Next, theoretical background is given on dynamic capabilities, including definitions, specifically selected models, microfoundations and psychological foundations of the selected models, followed by dynamic managerial capabilities and managerial cognitive capabilities. This specifically chosen set of theory aims at providing a framework to view the events of the Austrian Airlines transformation case with regards to organizational capabilities as well as managerial capabilities. At the end of this chapter critique of the dynamic capabilities is discussed and invalidated for this specific case, which leads directly to the identified research gap (Chapter 2).

The empirical part of this thesis starts with description of the empirical research methodology, describing how the interview guidelines were written and how the interview partners were selected (Chapter 3).

The case study is opened with introduction of key players of the industry along with the most important cost structure metrics and potential sources of competitive advantage to provide sufficient background information, following the historical development of the Austrian Airlines Group, which is required to understand the happenings surrounding the transfer of Austrian Airlines' operations to Tyrolean Airways (Chapter 4).

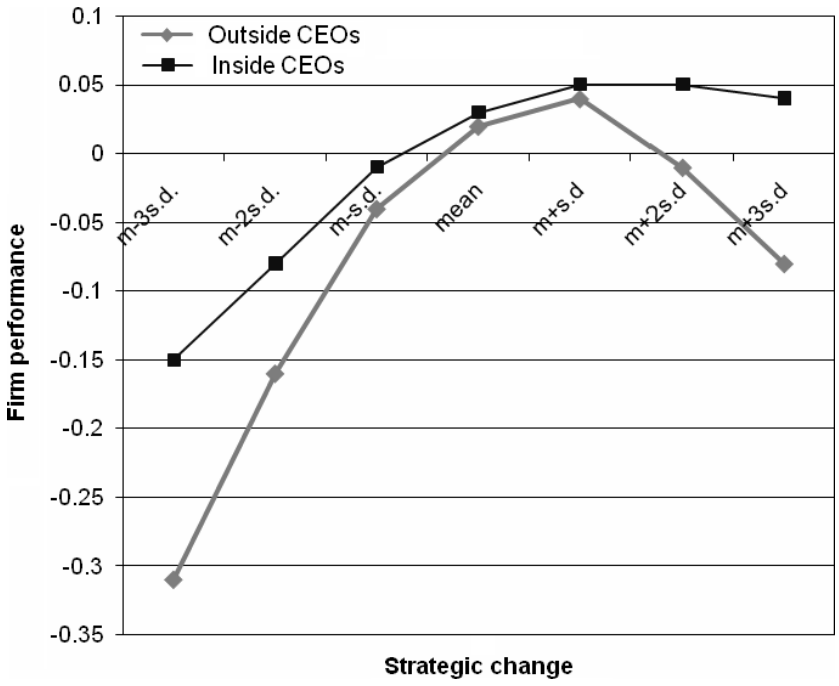
Next, the raw interview results are presented (Chapter 5) and discussed including their accordance with the theory (Chapter 6). Finally, further research areas are suggested (Chapter 7) and the findings of the entire thesis including recommendations are presented in the conclusion (Chapter 8).

2 Strategic Management and Organizational Change

Organizations are adaptable entities, which constantly generate decisions and solve problems (cf. *Cyert/March* 1963, p. 99). In performing these core tasks, each organization is limited by internal and external factors, such as 'uncertainty of its environment', 'the problems of maintaining a viable coalition' and 'the limitations on its capacity as a system for assembling, storing and utilizing information' (cf. *Cyert/March* 1963, p. 99). The aim of the majority of organizations is to provide products or services, which create customer value (cf. *Malik* 2011, p. 86). In the private sector, an essential strategy to facilitate survival and hence the ability to supply customers with valuable goods and services in the long run, is by means of establishing sustainable competitive advantage (cf. *Malik* 2011, p. 86). This very topic is one of the most researched areas in strategic management (cf. *Ambrosini/Bowman* 2009, p. 29).

An additional topic relevant to strategic management is firm performance in the view of strategic change: Numerous studies address the question whether strategic change leads to increase or reduction of firm performance (cf. *Zhang/Rajagopalan* 2010, p. 334). Despite the finding that among scholars no universally consistent agreement is available, Zhang and Rajagopalan (2010) hypothesize that while strategic change within confined scopes may increase firm performance, it may show jeopardizing effects once a certain threshold is exceeded (see Figure 1).

Figure 1: Firm Performance in Relation to Strategic Change



Source: *Zhang/Rajagopalan* 2010, p. 334

Accordingly, in addition to sole presence of strategic change as a source of competitive advantage (cf. *Malik* 2011, p. 133), the appropriate magnitude of strategic change is considered a determining factor in attributing strategic change to competitive advantage (cf. *Zhang/Rajagopalan* 2010, p. 342).

2.1 Dynamic Capabilities

2.1.1 Conceptual Background

Generation and maintenance of sustainable competitive advantage is among the core topics of strategic management research (cf. *Teece et al.* 1997, p. 509). Where previously the resource based view (RBV) has been identified and defended as a major source of competitive advantage, the several environments surrounding today's markets have become more fast-lived and challenging to sustain competitive advantage in (cf. *Eisenhardt/Martin* 2000, p. 1118). Survival in business has become a matter of resource and opportunity management as well as making decisions on defence versus withdrawal as regards determining presence in competitive environments (cf. *Augier/Teece* 2009, p. 411). Highly dynamic markets require organizations to keep their capabilities dynamic by constantly renewing them (cf. *Helfat/Peteraf* 2003, p. 1008).

Since the initial appearance of Dynamic Capabilities in scientific literature in 1990, a vast amount of research on this topic was made, ultimately leading to several hundred publications (cf. *Barreto* 2010, p. 257). The basic idea, which has launched research in the field of Dynamic Capabilities Framework, is to extend the Resource Base View, which is well successful in considered the fims' means to adapt its resource base to achieve competitive advantage in moderately dynamic markets. However, in today's world of commerce several industries, such as IT hardware (cf. *Teece* 2007, p. 1322) and mobile communications are too fast-paced to rely solely on the RBV paradigms, which focus on establishing a resource base, which is valuable, rare, inimitable and non-substitutable (cf. *Eisenhardt/Martin* 2000, p. 1105). While these attributes are valuable for snapshot views on an organization's competitiveness, they disregard time factors (cf. *Eisenhardt/Martin* 2000, p. 1118), which - if not considered - pose severe risks in fast-paced industries. Dynamic Capabilities are routines rather than ad-hoc solutions to problems (cf. *Teece* 2007, p. 1321), which may lead to desired success.

2.1.2 The Definition Dilemma

The large number of publications on Dynamic Capabilities has led to emergence of numerous different definitions (c.f. *Güttel, et al.* 2012, p.631), partially lacking consistency.

As an example, *Zaphra et al.* (2006) define Dynamic Capabilities as 'the abilities to reconfigure a firm's resources and routines in the manner envisioned and deemed appropriate by its principal decision maker'. This definition implies that the "principal decision maker" is aware of whether the envisioned change is appropriate for driving the firm towards seizure of competitive advantage. The recent development of Austrian Airlines analyzed in this thesis demonstrates that this assumption cannot be made, which is why the definition of Zaphra et al. (2006) falls short for further use.

Wang & Ahmed (2007) have added focus on competitive advantage in their definition, which states Dynamic Capabilities to be 'a firm's behavioral orientation constantly to integrate, reconfigure and recreate its resources and capabilities and, most importantly, upgrade and reconstruct its core capabilities in response to the changing environment to attain and sustain competitive advantage'. While the definition of Wang & Ahmed (2007) is broader and as such more suited to analyze the recent cases of Austrian Airlines than the definition of Zaphra et al. (2006), it lacks components addressing cognition of opportunities. Additionally, it merely mentions reaction to changing environments.

Eisenhard & Martin (2000) on the other hand include aspects of actively changing markets in their definition, which sees Dynamic Capabilities as 'The firm's processes that uses resources - specifically the processes to integrate, reconfigure, gain and release resources - to match or even create market change. Dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve and die.' This definition addresses the dynamics and the associated challenges of the airline industry more precisely than *Zaphra et al.* (2006) and *Wang & Ahmed* (2007).

The aspect relevant to the airline industry, yet missing in the definitions mentioned above is the Dynamic Capability of opportunity cognition. An extension to the definition of *Teece et al.* (1997), which claim Dynamic Capabilities to be 'the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments' is given by *Teece* (2007), who claims that 'dynamic capabilities can be disaggregated into the capacity (1) to sense and shape opportunities and threats, (2) to seize opportunities, and (3) to

maintain competitiveness through enhancing, combining, protecting, and, when necessary, reconfiguring the business enterprise's intangible and tangible assets.‘

2.1.3 Strategic versus Operative Dynamic Capabilities

In addition to availability of a wide variety of definitions, Dynamic Capabilities are subdividable into two basic categories, strategic Dynamic Capabilities and operative Dynamic Capabilities (cf. *Güttel et al.* 2012, p. 632). Strategic Dynamic Capabilities comprise patterns followed by strategic entrepreneurial decision making processes, which emphasizing on seizure of opportunities (cf. *Güttel et al.* 2012, p. 632). Operative Dynamic Capabilities on the other hand refers to the act of intentional modification of an organization’s assets (cf. *Güttel et al.* 2012, p. 632), hence allowing the organization to follow the lead given by the strategic Dynamic Capabilities, aiming at achieving and maintaining competitive advantage.

2.2 Sensing

Firms operating in global environments are susceptible to a constant interplay of opening up opportunities and declining markets. Social and demographic developments drive or diminish local demand for leisure passenger air travel while economic growth influences local demand for business air travel and cargo. Internationally operating airlines are especially challenged in sensing opportunities due to their practice of interconnecting domains of heterogenous social, demographic and economic nature. Additional challenge in sensing opportunities is given by the factor of timing. As opportunities emerge, profits of incumbents are at risk due to newcomers’ potential of seizing the new opportunities (cf. *Teece* 2007, p. 1322), whereas in the airline industry newcomers seizing emerging opportunities are rather to be identified among existing airlines rather than startups due to the industry’s high entry barriers.

Sensing opportunities requires constant scanning, searching and exploring activity of relevant markets, facilitated by institutionalizing research activity aiming at understanding developments in related industries, potential changes in customer demand and likely competitor responses (cf. *Teece* 2007, p. 1322). In institutionalizing opportunity sensing, it is required to emphasize on overcoming narrow search horizons as observed with prominent firms in the past, such as General Motors and IBM, where previously successful strategies have unconsciously caused management to view their environment in a filtered manner, hence turning their strategies into ‘strategic straightjackets’ (cf. *Teece* 2007, p. 1322).

The act of sensing opportunities also contains analysis of how their seizure may unfold interrelations between external stakeholders, such as competitors, customers, standard setting bodies and governments along with considerations on how the nature of the opportunity may change as a result of the identifies interdependencies, laws, social morals and business ethics (cf. *Teece* 2007, p. 1323).

2.2.1 Microfoundations of Sensing

Sensing of opportunities involves learning, interpretation and creative activity of individuals within an organization (cf. *Teece* 2007, p. 1323). Even though it can be - and is recommended to be - specified in the organizational processes and procedures, individual capabilities required to sense opportunities are not equally distributed amongst the organization's employees (cf. *Teece* 2007, p. 1323). In contrast, managers perceive and view their environments filtered by applying simplified models of the world, which is partially based on past experience (cf. *Tripsas/Gavetti* 2000, p. 1148). In addition to right hemisphere-based creative potential, individuals responsible for opportunity sensing require access to information and knowledge about customer demand in relation to existing or novel products and services, the ability to recognize and observe developments as well as understanding of customer decision making (cf. *Teece* 2007, p. 1323).

Information processed for the purpose of opportunity sensing is gathered through numerous channels, such as customer satisfaction reports and conversations at trade shows one the one hand (cf. *Teece* 2007, p. 1323), on the other industry news, news about political, social, demographic and economic development of potential target markets and news about developments in related industries, such as tourism and entertainment. Consequently, in the airline industry sensing of opportunities is more effective when carried out and documented by individuals who understand the delicacy and diversity of the structures shaping and changing the environments airlines operate in.

Reduction of risk associated with solely relying on creative and cognitive capabilities of individuals is achieved by specifying firm policy and processes by which the organization systematically and creatively scans relevant environments for opportunity creating developments, changes in customer demand and competitor activity (cf. *Teece* 2007, p. 1323). Information is filtered and subsequently shared internally among all relevant parties while keeping core tasks such as hypothesis development and testing as well as interpretation of obtained information up to top management (cf. *Teece* 2007, p. 1323). Upon successful execution of an opportunity

sensing process, periodic recurrence can be specified in the firm's processes to increase likelihood of timely addressing with respect to competition (cf. *Teece* 2007, p. 1323).

2.2.2 Psychological Foundations of Sensing

In addition to the cold cognitive processes of sensing, organizations are well advised to take emotional and intuitive aspects of sensing of opportunities into account (cf. *Hodgkindson/Healy* 2011, p. 1505). Likely, in addition to cold cognition, managers' moods take impact on the way opportunities and threats are seen, especially in view of the assumption that both extremes, anxiety and euphoria may have harmful impact on sensing activity (cf. *Hodgkindson/Healy* 2011, p. 1504). Furthermore, managers may be reluctant to discarding outdated beliefs in favour of up-to-date industry impulses, hence leading to decisions based on avoidance of discomforting new developments and passive renouncement of current industry trends (cf. *Hodgkindson/Healy* 2011, p. 1504).

Accordingly, a substantial foundation of the dynamic capability of sensing is to update managers' views with respect to the environment is operating in (cf. *Hodgkindson/Healy* 2011, p. 1504). Due to difficulty of individuals to relinquish their rigid behavioural patterns, group approaches may aid in pursuing this endeavor (cf. *Hodgkindson/Healy* 2011, p. 1505). Additionally, managers embedded in failure-friendly organizational environments, in which routines are implemented to adequately mitigate risks and hence enable broader use of creative space are more likely to sense opportunities, which are beyond their comfort zones (cf. *Hodgkindson/Healy* 2011, p. 1505). Finally, acknowledgement of intuition in addition to rational and analytical approaches to decision making may allow managers to make more sound decisions, especially in situations in which the amount of available information surpasses the managers' processing capabilities in relation to time available for decision making (cf. *Hodgkindson/Healy* 2011, p. 1505). Moreover, it is argued that knowledge management systems, designed to digitalize and streamline knowledge and experience of individuals are less effective due to their incapability of understanding relations, hence emphasizing the vital role of intuition in decision making (cf. *Hodgkindson/Healy* 2011, p. 1505). Despite the importance of intuition, determining the degree to which it is used in decision making is a non-trivial capability, which should take industry-related experience and observation periods into account (cf. *Hodgkindson/Healy* 2011, p. 1505).

2.3 Seizing

Seizing opportunities aiming at configuring organizations to offer new products and services in several cases implies opening up new investment paths, which operate in parallel to or compete against existing paths (cf. *Teece* 2007, p. 1326). Related new products and services exposed to the market tend to converge towards the most popular solution, also referred to as the dominant design (cf. *Tidd et al.* 2009, p. 40). Once the dominant design has penetrated the market, providers supplying associated products and services align their designs with the dominant design (cf. *Tidd et al.* 2009, p. 40). Therefore, in seizing opportunities it is recommended to remain flexible as long as the dominant design is emerging and investing heavily once a new product or service has potential to become the dominant design (cf. *Teece* 2007, p. 1326). The flexibility required to seize opportunities mandates maintenance of asset and knowledge bases, which can be accessed quickly in order to be ahead of competitors (cf. *Teece* 2007, p. 1326).

Proper timing and resourcing with regards to chosen opportunities are not the only opportunity seizing dynamic capabilities. Incumbent organizations - especially successful ones - tend to face challenges in overcoming biases in decision making (cf. *Teece* 2007, p. 1327). Sophisticated business model design and handling of internal resistance, hence allowing management to identify and remove outdated resource allocation and decision patterns potentially jeopardizing desired change projects are key dynamic capabilities (cf. *Teece* 2007, p. 1327). Thereby attention is paid to risk aversion grown in incumbent organizations resulting from success of established procedures and asset configurations and leading to biased decisions (cf. *Teece* 2007, p. 1328). Exploitation of dynamic capabilities dealing with these issues supports in avoiding premature failure of change initiatives resulting from internal resistance or sabotage (cf. *Teece* 2007, p. 1327).

Moreover, investments decisions in the view of dynamic capabilities are not only aimed at tangible assets of predictable nature, interrelated investments in intangible assets, which are difficult to decompose or model are challenges management of organizations in fast-paced industries face (cf. *Teece* 2007, p. 1329).

2.3.1 Microfoundations of Seizing

One essential microfoundation of seizing opportunities is the capability and the art of compiling business models. Business models state how value created by the organization is delivered

to customers and how their payments for received value are converted to the organization's profit (cf. Teece 2007, p. 1329). Sophisticated business models are developed on the basis of knowledge about customers' needs, how these are covered by the products and services offered by the organization (cf. Teece 2007, p. 1329). Amongst others, they contain defined target groups, cost structures and forecasts, profit potentials, growth perspectives, assumed customer and competitor reactions and a time to market schedule (cf. Teece 2007, p. 1329). A major challenge associated with the creation of business models is that - despite availability of a large amount of literature on how to write business plans - the choices made on use of technology, targeted market segments, financing, sales strategies and teaming are not made solely by methodology but also by creativity and knowledge about customers and competitors (cf. Teece 2007, p. 1330). In addition, future perspectives on customer and competitor reaction as well as development of cost and profit are estimated based on informed guesses, which turns validation of a business model not only into a effort, but also into judgement work (cf. Teece 2007, p. 1330). Good business models compare multiple potential paths, specify user requirements in detail, analyze value chains aiming at maximizing cost efficiency, user requirement conformance and punctuality and potentially elaborate on outsourcing decisions (cf. Teece 2007, p. 1330), hence aiming at specifying how to deliver higher quality, quicker at less cost.

Biases in making decisions are a common phenomenon, especially in large organizations (cf. Teece 2007, p. 1333), especially in consideration of the circumstance that each manager makes decisions partially based on an individual and simplified model of the world (cf. Tripsas/Gavetti 2000, p. 1148). In numerous cases, biased decisions favor paths sustaining current and legacy operations, hence pulling assets and resources from potential innovation or change initiatives (cf. Teece 2007, p. 1327). Avoidance of change initiatives from failing due to internal resistance despite top management commitment is supported by conscious handling of decision biases (cf. Teece 2007, p. 1333). Frequent decision biases include:

- Risk or loss aversion: In the case of risk or loss aversion, decisions are made towards the apparent risk or loss free path (cf. Teece 2007, p. 1327).
- Excessive optimism: The contrary to risk or loss aversion is excessive optimism. Decisions are made in favor of high risk and low return paths (cf. Teece 2007, p. 1327).
- Program persistence: A result of strong program advocacy for legacy operations combined with top management tendency towards balancing and compromising investment decisions is program persistence (cf. Teece 2007, p. 1327).

- Anti-cannibalization bias: Derived from the program persistence bias, the anti-cannibalization bias aims at protecting legacy asset configurations, which have become inefficient against innovation or change initiatives (cf. Teece 2007, p. 1334).

In fast-paced business environments decision biases leading to wrong decisions can have strong impacts resulting from the circumstance that time to recover is limited (cf. Teece 2007, p. 1333). At present, structured procedure-based methodology aiming at avoiding biased decisions lacks maturity, which potentially enables this dynamic capability to unfold unique competitive advantage within organizations implementing it (cf. Teece 2007, p. 1333). The capability of timely recognition and overcoming of decision biases requires a 'cognitively sophisticated and disciplined approach to decision making', considering aspects of adequate calibration of incentive systems, obtaining the outside view, testing for logical errors and provision of a mistake-tolerant corporate culture, encouraging honesty and transparency (cf. Teece 2007, p. 1333). These measures support in identification and removal of dying or already dead asset configurations within organizations manifesting protectionism by combating change initiatives (cf. Teece 2007, p. 1333). Special attention is due for obtaining the outside view when making divestment decisions based on asset value or depreciation. While accounting data may suggest divestment, market or intangible values may suggest the contrary.

2.3.2 Psychological Foundations of Seizing

Strategic decision making is widely affected by the well-known and documented tendencies towards pursuing change in modest increments rather than going for disruptive innovations, based on managerial biases relating existing views of probability of success in the future (cf. Hodgkindson/Healy 2011, p. 1507). In addition, managerial decision making behaviour is driven by emotions caused by visualization of mental images of the outcomes of the respective decisions (cf. Hodgkindson/Healy 2011, p. 1507). Thereby, negative emotions tend to provoke negative reactions more likely than positive emotions provoke positive reactions (cf. Hodgkindson/Healy 2011, p. 1507). Moreover, emotional reactions often overrule behaviour driven by rational arguments, which may lead to situations in which managers lack commitment to pursuing certain initiatives (cf. Hodgkindson/Healy 2011, p. 1507). Consequently, awareness of emotional reactions to sensed opportunities and creation of future scenarios, amongst others aiming at creating positive sentiment towards envisioned actions is a vital foundation of the capability of seizing (cf. Hodgkindson/Healy 2011, p. 1507). Despite the elevating impact emotionally driven commitment may have on pursuit of opportunities, care

must be taken to ensure that factual evidence suggesting dismissal of opportunities is not overruled by euphoria (cf. Hodgkindson/Healy 2011, p. 1508).

Escalation of commitment, aiming at protecting one's own reputation and avoiding anxiety and regret associated with dysfunctional strategies are organizational phenomena, which contribute to the result that pursuit of existing strategy in favour of exploring new innovations can end up being more expensive to the organization (cf. Hodgkindson/Healy 2011, p. 1508). To reduce escalation of commitment as far as possible, negative sentiment associated with dysfunctional strategies is reinforced, resulting in decision makers becoming reluctant to place further investments (cf. Hodgkindson/Healy 2011, p. 1508).

2.4 Reconfiguration

The Dynamic Capability of Reconfiguration refers to a firm's ability to 'recombine and reconfigure assets and organizational structures' as the firm grows or the market changes (cf. Teece 2007, p. 1335). In addition, it may contain business model redesign and mergers and acquisitions (cf. Teece 2007, p. 1335). Reconfiguration aims at creating complementarity between products, procedures and structures (cf. Teece 2007, p. 1335), hence disposing of redundancies within firms, which are likely to cause internal inefficiency and conflicts (cf. Teece 2007, p. 1335).

Organizational learning derived from experience and collective memory is manifested in the firms' procedures (cf. Cyert/March 1963, p 100). While the procedures of established firms ensure streamlined operations aimed at establishing efficiency while markets are stable, reconfiguration of assets and internal operational structures are required to sustain success in changing environments and to dispose of unfavourable paths (cf. Teece 2007, p. 1335). Forces protecting established routines exhibit resistance towards forces aimed at changing them or introducing new routines unless the affected company's culture foresees frequent change (cf. Teece 2007, p. 1335).

2.4.1 Microfoundations of Reconfiguration

2.4.1.1 Decentralization

Assuming organizations consist of sub-units, which are interdependent and independent to a certain extent, by decentralizing, semi-autonomous decision making and reporting structures are achieved, allowing sub-units to sense and seize opportunities more quickly, thoroughly

and appropriate to each sub-unit (cf. Teece 2007, p. 1336). While decentralization possibly impedes potential integration initiatives, it generates flexibility by transferring decision power to ‘quasi-independent profit centres, which are likely to be more responsive than centralized structures (cf. Teece 2007, p. 1336). Accordingly, where ‘integrated product offerings’ are of limited benefit, organizations should consider decentralization, however in order to maintain efficiency, economies of scale and synergies between units shall continue to be pursued (cf. Teece 2007, p. 1336). While integration has been empirically proven to enhance firm performance, fast-paced environments demand organizations to be in a place, where decisions can be made quickly (cf. Teece 2007, p. 1336). Consequently, the master discipline of decentralization is to maintain a balance between integration and division autonomy (cf. Teece 2007, p. 1336).

2.4.1.2 Cospecialization and Complementaries

In consideration of the circumstance that ‘continuous realignment’ is necessary in fast-paced industries, achievement of ‘strategic fit’ is a task that needs to be performed continuously (cf. Teece 2007, p. 1337). In the dynamic capabilities framework, the concept of ‘fit’ is detailed to refer to ‘one asset to another’, ‘strategy to structure’ or ‘strategy to process’ and is called co-specialization (cf. Teece 2007, p. 1337). An integral part of cospecialization is identification and management of complementary assets, which potentially enhance the value of the supply chain in a manner, which is difficult to imitate by competitors (cf. Teece 2007, p. 1337). Especially, in industries entailing the necessity of industry platforms in order to operate, alignment and interaction of diverse firm assets to generate benefits, which surpass the cumulative advantages of the atomic assets, competitive advantage can be achieved by uniquely combining assets, which may be generated within the organization or acquired from external sources (cf. Teece 2007, p. 1337). Competitive advantage created by cospecializing assets manifests itself in two basic facets: on the one hand, unique integrated product offerings are achieved, which are difficult to imitate by competitors, one the other, the level of integration allows for pricing of products and services resulting from the unique combinations of assets, which is hard to underbid by competitors (cf. Teece 2007, p. 1338).

2.4.1.3 Organizational Learning

Knowledge within an organization is an intangible asset and thus key to success (cf. Teece 2007, p. 1339). Thus, maintenance and creation of enterprise knowledge by means of organizational learning mechanisms is an important microfoundation of reconfiguring (cf. Teece

2007, p. 1339). Analogue to knowledge, dynamic capabilities are continuously updated based on organizational learning mechanisms (cf. Eisenhardt/Martin 2000, p. 1118). As a part of moving and rearranging assets throughout the organization within the scope of reconfiguring, transfer of knowledge is a key aspect (cf. Teece 2007, p. 1339). This is accomplished either by shifting capabilities from one market to the other or by sharing capabilities between old and new structures in reconfiguration scenarios (cf. Helfat/Peteraf 2003, p. 1006).

2.4.2 Psychological Foundations of Reconfiguration

Where organizations are transformed by acts of reconfiguration, identities of managers and employees are perceived to be threatened, which in turn is likely to create resistance and inertia throughout all layers of the organization (cf. Hodgkindson/Healy 2011, p. 1509). As a consequence, reconfiguration initiatives and individuals associated with promotion of new identities are frequently met with active resistance in attempting to defend the old structures and identities (cf. Hodgkindson/Healy 2011, p. 1509). Accordingly, to prevent organizations from falling victim to poor adaptability, a vital foundation of the dynamic capability of reconfiguration is creation of confidence in the changed identity, addressed not only on cognitive levels, but also with respect to emotional aspects (cf. Hodgkindson/Healy 2011, p. 1509).

2.4.2.1 Resistance and Inertia

In general, resistance is a phenomenon, which commonly surfaces when organizations are in managed change processes (cf. Doppler et al. 2002, p. 323). Especially major and long standing organizations develop structural and cultural inertia, which manifests itself as perceived resistance towards change (cf. Tushman/O'Reilly 1996, p. 18), which is a natural result of organizational tendency towards repeating previously successful decision rules and avoiding decision rules, which led to failure in the past (cf. Cyert/March 1963, p.99)

Structural inertia arises from interlacement of internal structures and processes, which turn out to be complex, cost-intensive and time-consuming to change (cf. Tushman/O'Reilly 1996, p. 18). Cultural inertia on the other hand results from the way long-standing organizations develop informal means of organizational learning and communication as well as the impact role models have on the organization (cf. Tushman/O'Reilly 1996, p. 18). The more successful the organization has been over long periods, the more the corporate culture becomes institutionalized cf. Tushman/O'Reilly 1996, p. 18). This results in greater cultural inertia and consequently in increased organizational complacency (cf. Tushman/O'Reilly 1996, p. 18).

Overall, corporate culture is an artefact, which holds organizations together by providing a platform for organization-wide integration, identification and communication (cf. Tushman/O'Reilly 1996, p. 26). In steady environments, culture is considered an indispensable tool to gear internal control and coordination towards success without applying excess formality (cf. Tushman/O'Reilly 1996, p. 18). In fast-paced and disruptive environments however, managers are likely to find themselves in positions, in which they are forced to destroy a culture, which has been a main contributor to major organizational success in the past, yet forms a barrier to change and thus future success (cf. Tushman/O'Reilly 1996, p. 19).

Even though shaping an organization's corporate culture with the aim of developing ambidexterity is one of the most challenging aspects of strategic management (cf. Tushman/O'Reilly 1996, p. 24), pursuit is worthwhile for the sake of developing crucial capabilities (cf. Gibson/Bradshaw 2004, p. 221) and preventing failures based on psychological employee-driven factors (cf. Brenner 2008, p. 132).

Organizations, which are ambidextrous, are forced to feature an extent of ambivalence: they are required to be loose and tight simultaneously, whereas the loose component provides sufficient flexibility to allow adaptability to flourish and the tight component ensures the consistency of alignment (cf. Tushman/O'Reilly 1996, p. 26). Consequently, organizations may have subcultures for specific business units, especially in view of the fact that ambidexterity foresees decentralization of decision making, hence distributing accountability while allowing certain tolerance levels for failure (cf. Tushman/O'Reilly 1996, p. 25f).

2.4.2.1.1 Handling of Resistance

2.4.2.1.1.1 Reasons for Emergence of Resistance

Emergence of resistance among employees of changing organizations potentially results from numerous causes including (cf. Doppler et al. 2002, p. 324):

- Lack of understanding for the rationale of the change
- Distrust in the genuineness of the available information regarding the change
- Expectation of negative implications resulting from the change

These reasons imply fear or scepticism among the involved individuals, which is why resistance is handled on the emotional level rather than the rational level (cf. Doppler et al. 2002, p. 324).

2.4.2.1.1.2 Symptoms of Resistance

Symptoms of resistance are categorized as illustrated in Table 1 below (cf. Doppler et al. 2002, p. 326):

Table 1: Symptoms of Resistance

	Verbal	non-verbal
Active	**Contradiction:** • Counter argumentation • Accusations • Threatening • Polemics • Stubborn formalism	**Agitation:** • Rioting • Dispute • Intrigues • Rumours • Emergence of cliques
Passive	**Avoidance:** • Silence • Trivialization • Ridiculing • Joking • Debating irrelevant issues	**Inactivity:** • Negligence • Fatigue • Absence • Illness

Source: Own diagram

2.4.2.1.1.3 Actions to Address Resistance

Communication aimed at dealing with resistance features a level of complexity given by its emotional nature, which may result in unconscious discomfort the involved individuals cannot motivate, and thus motivate by means of spurious arguments (cf. Doppler et al. 2002, p. 324). On the other hand, even if conscious about particular sources of discomfort, the involved individuals may hold back their concerns due to fear of loss of face or other social consequences they may face (cf. Doppler et al. 2002, p. 324). This demonstrates that addressing resistance is a task, which requires skills in deciphering the actual message based on sets of symptoms (cf. Doppler et al. 2002, p. 325).

2.4.3 Actions in Reconfiguring

2.4.3.1 Mergers and Acquisitions

Mergers and acquisitions is a complex subject matter in strategic management. On the one hand, this is reflected in the number of multi-faceted publications dealing with strategic, economic, financial, organizational and human resource management aspects, on the other the number of failed transactions in the history of mergers and acquisitions proves its non-trivial nature, which is assumed to result in poor understanding of its complexity in practice (cf. Larsson/Finkelstein 1999, p. 2).

While a multitude of the studies concentrate on attributing success or failure of mergers and acquisitions solely to partially ambiguous financial metrics, such as accounting or market return, Larsson and Finkelstein (1999) identify synergy realization and exploitation across combined firms as substantially contributing factors. Thereby, synergy realization refers to (cf. Larsson/Finkelstein 1999, p. 1):

- the strategic potential emerging from combining the organizations given by:
    - similarities between the pre-merger players
    - complementarities between the involved organizations
- the extent of post-merger organizational integration
- a low degree of employee resistance to the aftermath of the deal

In consideration of the model of synergy realization and despite historic tendencies of scholars to neglect aspects of human resource management in mergers and acquisitions research, a high degree of organizational integration appears to be the most relevant success factor (cf. Larsson/Finkelstein 1999, p. 1). Even though in the past, organizations have leaned towards underestimating the importance of post-merger organizational integration, sole presence of potential synergies to pursue is not sufficient to guarantee success of a transaction; the organization's structure and processes are required to be aligned to facilitate pursuance (cf. Larsson/Finkelstein 1999, p. 16).

The unambiguousness of the importance of post-merger integration is not applicable to the synergy realization aspect of strategic potential. While numerous studies survey correlation of transaction success and similarity among firms combining in the transaction, strategic differences among the pre-merger players provide potential for exploiting complementarities, which can enhance the competitive value of the combined firm on the market (cf. Larsson/Finkelstein 1999, p. 15). In addition, post-merger integration efforts tend to be lower for

transactions combining organizations with more complementarities and less similarity, which is motivated by the observation that combination of heterogeneous operation requires less coordination (cf. Larsson/Finkelstein 1999, p. 16). Efforts related to post-merger integration of similar firms on the other hand may be substantial; in order for these to exploit potential synergies, extensive coordination, processual synchronization and structural adaptation may be required, which in turn poses high risks (cf. Larsson/Finkelstein 1999, p. 16).

High risk is also given by impact of employee resistance on post-merger activities (cf. Larsson/Finkelstein 1999, p. 16). Employees are likely to show negative reactions including hostility, dissatisfaction and resignation as a result of side effects accompanied by the transaction, such as stress, cultural differences and career disruptions, ultimately leading to an undesired level of employee turnover (cf. Larsson/Finkelstein 1999, p. 16). Similar to the synergy realization aspect of strategic potential, transactions combining less similar firms are at less risk of being susceptible to the negative effects of employee resistance, which is a result of employees' subjective perception of threat (cf. Larsson/Finkelstein 1999, p. 17). While employees affected by homogeneous transactions see more potential for synergy exploitation by downsizing and thus possibilities of losing their jobs, heterogeneous transactions are perceived less threatening (cf. Larsson/Finkelstein 1999, p. 17).

Besides the aspects of synergy realization, management style similarity and size of organizations play a role in development of mergers and acquisitions transactions (cf. Larsson/Finkelstein 1999, p. 17). Given the effectiveness of organization leaders' impact on behaviour within the organizations, the boosting factor of management style similarities is attributed more to the lack of cultural difference than to ease in coordination and synchronization efforts (cf. Larsson/Finkelstein 1999, p. 17). The matter of size of the organizations affected by a transaction is limited to the size-based potential for synergy exploitation – targets are advised to be sufficiently sized to provide an appropriate manner of synergy exploitation potential (cf. Larsson/Finkelstein 1999, p. 17).

2.5 Dynamic Managerial Capabilities

The Dynamic Managerial Capabilities concept was initially introduced by Adner and Helfat (2003) and extends the Dynamic Capabilities framework presented by Teece, Pisano & Shuen (1997) and Eisenhardt & Martin (2000) by examining the manager's role in strategic change (cf. Helfat/Martin 2015, p. 1282). While the Dynamic Capabilities framework refers to 'the firm's ability to integrate, build and reconfigure internal and external competences to address

rapidly changing environments' (Teece et al. 1997, p. 516) or 'organizational and strategic routines by which firms achieve new resources configurations as markets emerge, collide, split and die' (Eisenhardt/Martin 2000, p. 1107), later studies provide evidence that heterogeneous managerial decisions impact differently on organizational performance, hence introducing the concept of dynamic managerial capabilities (cf. Adner/Helfat 2003, p. 1020). As opposed to studies, which examine correlation between the CEO's professional history and tenure and firm performance (cf. Zhang/Rajagopalan 2010, p. 335), the dynamic managerial capabilities concept refrains from attributing the effects solely to the CEO and accounts firm performance to the capabilities of management teams (cf. Kor/Mesko 2013, p. 233).

2.5.1 The role of the Manager in Strategic Change

Throughout past research dating back to the 1970s, the role of managers in contributing to firm performance has been debated leading to controversial results. The meaningfulness of the manager in shaping firm performance as stated by Augier and Teece (2009, p. 417) is not shared by all scholars. Literature from the 1970s and 1980s suggest that managers, if at all, impact firm performance negatively (cf. Walsh 1995, p. 280) .

In addition to the finding that strategic change is not attributed to sole CEOs (cf. Kor/Mesko 2013, p. 233), managers may be roles rather than individuals in modern organizations (cf. Augier/Teece 2009, p. 417). They play vital roles in orchestrating and coordinating organizational activity, which leads the firm from sensing opportunities to seizing them (cf. Augier/Teece 2009, p. 418).

2.5.2 Managerial Human Capital

Managerial human capital comprises skills and knowledge acquired by managers throughout their professional careers (cf. Adner/Helfat 2003, p. 1020), while Mintzberg (1973), for example, sees it as learning-by-doing. In their impact on firm performance and transferability between organizations, scholars differ between generic, and specific skills (cf. Adner/Helfat 2003, p. 1020). While generic skills are found to be transferrable between organizations as managers change their jobs in an unlimited form, industry- and firm-specific skills exhibit limitations in their usefulness in succeeding occupations (cf. Adner/Helfat 2003, p. 1020). Resulting from the fact that each specific skill is transferable between organizations to a certain extent only, each manager has – based on his past professional career – a personal human capital footprint, which is a determining factor to contributing to the decision-making process

(cf. Adner/Helfat 2003, p. 1021). Accordingly, in many cases, education and prior industry-related work experience have positive impact on strategic change and firm performance in changing economic environments (cf. Helfat/Martin 2015, p. 1302).

2.5.3 Managerial Social Capital

Managerial social capital refers to potential unfolded by social ties managers nurse within the organization and bring from outside of the organization (cf. Adner/Helfat 2003, p. 1021). They are assumed to aid in transferring knowledge between organizational contexts (cf. Adner/Helfat 2003, p. 1021) and are proven to affect strategic change in numerous empirical studies (cf. Helfat/Martin 2015, p. 1293), amongst others by the observation that acquisitions are more likely to be made by managers, who have large numbers of external ties (cf. Haunschild 1993, p. 556). In the case of external ties, enhanced firm performance is motivated by managers' access to additional external resources the organization may require as well as access to knowledge about other firms' practices (cf. Adner/Helfat 2003, p. 1021). Internal networks in turn potentially provide managers with information and resources they may utilize to as inputs for decision making processes (cf. Adner/Helfat 2003, p. 1021).

Consequently, heterogeneity in social capital of managers results in heterogeneity in the decisions they make (cf. Adner/Helfat 2003, p. 1021). In addition, large social networks may have beneficial effects on firm performance under conditions of change (cf. Helfat/Martin 2015, p. 1293).

2.5.4 Managerial Cognition

Managerial cognition describes how managers make effort in 'absorbing, processing, and disseminating information about issues, opportunities, and problems' (cf. Walsh 1995, p. 280). The core challenge managers face in this respect is to evaluate large and ambiguous bases of information with the purpose of making sound decisions (cf. Walsh 1995, p. 280). Achieving unambiguous results in analysing whether managers' mental models enhance or harm firm performance is complicated by the ambivalence of blindness towards necessity of strategic change and professional experience (cf. Walsh 1995, p. 280).

In addition to mental models and information bases enabling managers to foresee and decide upon future events, beliefs and value systems play essential roles in managerial cognition (cf. Adner/Helfat 2003, p. 1021). As an example, risk management and handling of uncertainties

are activities performed by managers based on their assumptions of the future (cf. Cyert/March 1963, p. 124), regardless of degree of rationality or completeness of their views of the future (cf. Adner/Helfat 2003, p. 1021).

Furthermore, overall industry performance takes impact on managerial cognition as empirical studies have revealed managers to relate good performance to firm-internal activities whereas bad performance was related to the managers' perceptions and judgements of their business environments (cf. Huff 1990, p. 106). These judgement biases undermine a positive side-effect of economic downturn, which manifests itself in more thorough reflection of how managers perceive their environments in difficult times (cf. Huff 1990, p. 106).

Selective Limitations to managerial cognition is given by the circumstance that managers are susceptible to changes in their demands, foci of attention and ability to handle multiple organizational issues at once (cf. Cyert/March 1963, p. 43). These individual aspects of managerial cognition result in heterogeneity among managers in their means of making decisions and shaping firm strategy (cf. Adner/Helfat 2003, p. 1022).

2.6 Change Capabilities attributed to Individual Managers

2.6.1 Overview

While Dynamic Capabilities deal with organization-internal dynamics, which facilitate adaptability in changing environments, numerous studies examine how managers and especially the CEO impact organization performance (cf. Helfat/Peteraf 2014, p. 832). Although managers' actions are generally tied to fulfilling the shareholders' requirements, their individual capabilities contribute to identification and development of opportunities, strategic renewal and orchestration of resources (cf. Augier/Teece 2009, p. 410). Even though individual managers are likely to be unequally skilled in performing specific mental activities, their level of cognitive capabilities is not necessarily exclusively determinant for their intelligence or fitness for purpose for their areas of responsibility (cf. Helfat/Peteraf 2014, p. 845f). In certain cases, environmental factors which are beyond direct control of individual managers or organizations may limit their scope of action (cf. Helfat/Peteraf 2014, p. 845). Nevertheless, in general, managers who are skilled in paying attention to and perceiving market trends and likely sense new opportunities and managers with social and communication skills are likely to perform well in reconfiguring assets (cf. Helfat/Peteraf 2014, p. 845).

2.6.1.1 The CEO Effect

Several studies dating back to eras preceding the emergence of Dynamic Capabilities examine how different CEOs have impacted firm performance, referred to as the "CEO effect" (cf. Helfat/Peteraf 2014, p. 832). A more recent study carried out by Adner and Helfat (2003) has revealed that strategic decisions made by managers can be determinant for firm performance in changing environments, thereby defining the dynamic managerial capabilities "managerial human capital", "managerial social capital" and "managerial cognition". Research on dynamic managerial capabilities is continued by Helfat and Peteraf (2014), who examine how dynamic managerial capabilities are underpinned by managerial cognitive capabilities. Thereby perception and attention are considered to underpin sensing activities, problem solving and reasoning are stated to support seizing activities and language, communication and social cognition are said to help reconfiguration processes (cf. Helfat/Peteraf 2014, p. 837).

2.6.2 Capabilities in Support of Sensing Opportunities

The dynamic managerial capability of sensing opportunities may be underpinned by the managerial cognitive capabilities of perception and attention, which are assumed to be distributed heterogeneously across individual managers (cf. Helfat/Peteraf 2014, p. 839). Accordingly, managers may differ in their skills in reacting to events while performing routine tasks and distinguishing relevant from non-relevant subject matter. (cf. Helfat/Peteraf 2014, p. 839)

2.6.2.1 Perception

Perception is a mental activity, which comprises pattern recognition and interpretation of data aiming at extracting relevant information about specific environments while disregarding non-relevant information (cf. Helfat/Peteraf 2014, p. 838). It supports the dynamic capability of sensing opportunities, especially if underpinned by prior knowledge, prior experience and expectation (cf. Helfat/Peteraf 2014, p. 838). Numerous studies demonstrate that quantity and speed of meaningful pattern recognition, which is based on automatic mental processing, are higher among individuals practiced and experienced in relevant subject matters (cf. Helfat/Peteraf 2014, p. 838). Even though biases based on prior experience may dilute perception, path dependency, which can aid in retaining sufficient flexibility to sustain and grow in highly dynamic environments (cf. Schreyögg/Kliesch-Eberl 2007, p. 913), may result from a continuous cycle of perceiving based on prior experience and subsequently merging perception to the existing base of experience (cf. Helfat/Peteraf 2014, p. 838). Perceptive capabilities

may enhance sensing capabilities by providing means to timely scan environments for opportunities and threats (cf. Helfat/Peteraf 2014, p. 838).

2.6.2.2 Attention

Attention, a mental activity which is closely linked to perception, is crucial when operating in fast-paced and uncertain environments (cf. Helfat/Peteraf 2014, p. 839). It facilitates maintenance of a state of alertness while providing means to focus on particular stimuli received in the process of scanning the environment (cf. Helfat/Peteraf 2014, p. 839). As opposed to perception, the capability of attention relies on both, automatic mental processing as well as controlled mental processing (cf. Helfat/Peteraf 2014, p. 839). While the controlled mental processing part of the attention capability is manifested in search activities aiming at finding specific patterns in searched environments, the automatic part allows recognition of patters and events, which occur unexpectedly (cf. Helfat/Peteraf 2014, p. 839). Due to the dual nature of retaining a state of alertness while facilitating focus, a pronounced capability of attention is likely to support managers in sensing new opportunities and threats (cf. Helfat/Peteraf 2014, p. 839).

2.6.3 Capabilities in Support of Seizing Opportunities

Firm performance may be impacted by the nature and effectiveness of opportunity seizing activity. As opposed to sensing, seizing activities potentially involve substantial investments in tangible and intangible assets and are thus difficult to revoke (cf. Helfat/Peteraf 2014, p. 840). As for the cognitive capabilities attributed to underpin opportunity sensing, it is assumed that capabilities supporting seizing of opportunities are heterogeneously distributed among individual managers, partly based on automatic metal processing and partly on controlled mental processing (cf. Helfat/Peteraf 2014, p. 841).

2.6.3.1 Problem Solving and Reasoning

The concrete cognitive capabilities hypothesized to underpin the dynamic capability of opportunity sensing are problem solving and reasoning (cf. Helfat/Peteraf 2014, p. 840). Both capabilities feature characteristics, which are induced by controlled mental processing, while others are attributed to automatic mental processing (cf. Helfat/Peteraf 2014, p. 840). While controlled mental processing yields solutions and decisions made on the basis of rational behaviour, formal rules, logic, balancing advantages and disadvantages and analytics, automatic mental processes may entail heuristic approaches or results based on guesses (cf.

Helfat/Peteraf 2014, p. 840). With regard to risk aversion and avoiding biases, problem solving and reasoning based on controlled processing is the more beneficial approach, whereas in terms of speed in reacting to complex or poorly specified subject matters under time pressure, automatic mental processes may yield more advantageous results (cf. Helfat/Peteraf 2014, p. 840).

2.6.4 Capabilities in Support of Reconfiguring Assets

2.6.4.1 Language and Communication

Language is used as a tool of communication to orchestrate reconfiguration activities and to promote goals and visions within organizations (cf. Helfat/Peteraf 2014, p. 843). The more skilled managers are in communicating, especially in managerial storytelling, the more likely they are to inspire their audience to follow and support change initiatives and growth plans (cf. Helfat/Peteraf 2014, p. 843). While verbal communication is used in a conscious manner to transport messages, non-verbal communication inevitably transports emotion via physical features, facial expressions, body movements and postures (cf. DePaulo 1992, p. 205). To an extent, non-verbal communication is controllable (cf. DePaulo 1992, p. 203). Considering that in change initiatives, human and non-logical factors are – despite their criticality in successfully transforming organizations – frequently overlooked (cf. Brenner 2008, p. 137), skillful non-verbal communication supplementing sophisticated verbal communication is likely to constitute a valuable asset in promoting change initiatives.

2.6.4.2 Social Cognition

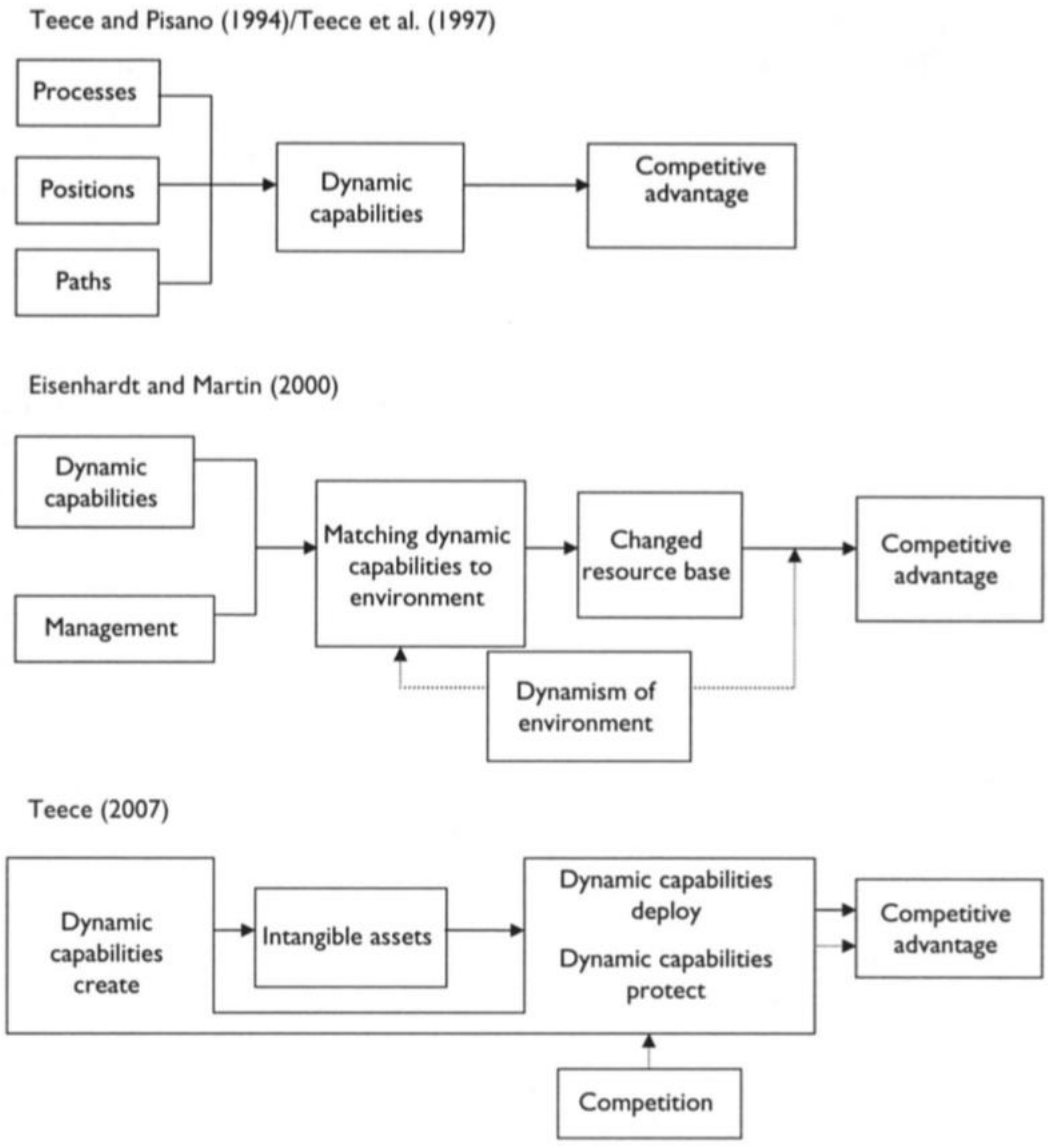
Asset reconfiguration and orchestration across organizations are likely to assume a scope, in which they may become difficult to reverse (cf. Helfat/Peteraf 2014, p. 844), which can cause structural inertia (cf. Tushman/O'Reilly 1996, p. 18). Overcoming related resistance social cognitive capabilities, such as communication, cooperation and appropriate handling of resistance to change (cf. Helfat/Peteraf 2014, p. 844). Due to the heterogeneity of these capabilities among managers, organizations are likely to differ in their performance in reconfiguring assets (cf. Helfat/Peteraf 2014, p. 844).

2.7 Critique

Teece (2007) realizes the difficulty in implementing Dynamic Capabilities and argues that source of competitive advantage, which amongst others embraces inimitability, lies in this

particular difficulty. As opposed to Teece et al. (1997), Eisenhard & Martin (2000) argue that Dynamic Capabilities themselves are not an explicit source of competitive advantage. Accordingly, competitive advantage is gained through resource reconfigurations rather than dynamic capabilities (cf. Eisenhard/Martin 2000, p. 1118). Further inconsistencies in drawing dependencies between dynamic capabilities and competitive advantage are illustrated by Arend & Bromiley (2009). In Figure 2 below, three different models designed by upper echelon dynamic capabilities scholars to illustrate how dynamic capabilities relate to competitive advantage.

Figure 2: Different Dynamic Capabilities Mappings to Competitive Advantage



Source: Arend/Bromiley 2009, p. 79

Further to the circumstance that upper echelon dynamic capabilities research has inconsistent views on how competitive advantage is gained through dynamic capabilities, several problems are identified by Arend & Bromiley (2009), including 'lack of theoretical foundation', 'incompleteness', 'logical inconsistencies' as well as biases including 'halo effects' and 'post hoc selection problems'.

Dynamizing organizational capabilities as demanded by Helfat and Peteraf (2003) to address the dynamics of rapidly changing markets poses a risk of jeopardizing the essence of the capabilities (cf. Schreyögg/Kliesch-Eberl 2007, p. 914). In the past, organizations have failed in adapting to changing environments by destroying core competencies and core architectural knowledge about their environments (cf. Tripsas/Gavetti 2000, p. 1148). This risk can be mitigated by implementing routines, which constantly monitor organizational capabilities against their current fit (cf. Schreyögg/Kliesch-Eberl 2007, p. 914). The process of monitoring can be implemented separate from the monitored capability in space and time to ensure the monitoring does not impact the operational output generated by the capability (cf. Schreyögg/Kliesch-Eberl 2007, p. 914). In addition, organizational ambidexterity facilitates implementation of change while retaining legacy core business (cf. Tushman/O'Reilly 1996, p. 8).

2.8 Research Gap

Dynamic capabilities are a widely-researched discipline in strategic management, which has led to large numbers of publications. Literature search for articles containing referring to the dynamic capabilities framework limited to the years 1997 through 2007 yields over 1500 results (cf. *Barreto* 2009, p. 257). Accordingly, the variety of different topics related to dynamic capabilities is wide. Several scholars deal with the question, how dynamic capabilities shall be defined, what they consist of, which environments they are useful in and how appropriate they are to pursue maintaining competitive advantage (cf. *Barreto* 2009, p. 258f.). Other scholars criticize the dynamic capabilities framework for showing a tendency towards 'oversimplifying a complex phenomenon' based on lacking theoretical foundation (cf. *Arend/Bromiley* 2009, p. 81).

While the domain of ownership impact on organizational performance and organization internally induced development of dynamic capabilities is well researched, little is known about the impact organizational context, such as political environment or ownership has on the emergence of dynamic capabilities (cf. *Helfat/Peteraf* 2014, p. 846). For this reason, the Aus-

trian Airlines case is viewed over a period, in which owners and political influence have changed. The empirical research seeks for evidence of the dynamic capabilities sensing, seizing and reconfiguring and points out when the first traces were available and when the dynamic capabilities were activated. This study aims at closing the research gap involving the question, which political environments and ownership structures impact the ability to unfold dynamic capabilities in which way.

3 Research Design and Methodology

3.1 Overview

The transfer of Austrian Airlines operations to Tyrolean Airways is a process, which originated in 1998, when Austrian Airlines owned 100% of Tyrolean Airways shares (cf. *www.austrianairlines.ag* 2010). In the years between 1998 and today, various boards of directors were appointed and multiple strategies implemented, mainly aiming at achieving, maintaining or improving competitive advantage. Even though Austrian Airlines has closed several years between 1998 and 2004 with net profit (cf. *https://en.wikipedia.org* 2017), 2005 was the year, in which profit turned to loss (cf. *https://en.wikipedia.org* 2017). Austrian Airlines under the lead of CEO Jaan Albrecht managed a turnaround by 2012. Jaan Albrecht's primary strategy was to cut cost by streamlining the fleet, which was still comprised of aircraft inherited from Lauda Air and Tyrolean Airways and by transferring the more cost-efficient Tyrolean Airways collective contract structure to Austrian Airlines (cf. *www.austrianairlines.ag* n.d.a).

3.1.1 Temporal Focus

When reviewed against the Dynamic Capabilities model of Teece (2007), it can be argued that the period of fully integrating Tyrolean Airways into Austrian Airlines has taken more than a century. This standpoint is underpinned by pinpointing the opportunity seizing action to the 100% share acquisition in 1998 and the full asset reconfiguration allowing the new merged organization to exploit all benefits of the acquisition to 2012. In view of the differential environmental circumstances between the 1990s and 2012, the chance of diverging sensed opportunities cannot be ruled out. While Jaan Albrecht's measures aiming at deploying a competitive cost structure to a company exposed to competition by Middle Eastern network carriers and European Low Cost Carriers, Mario Rehulka acquired Tyrolean Airways at a time in which the fleets of both, Emirates and Ryanair barely comprised 20 aircraft. To ensure intentional consistency, contextually mapping seizure and reconfiguration activities to the actually sensed opportunity, temporal emphasis of the empirical research is placed on the period Jaan Albrecht was the active CEO of Austrian Airlines. In view of the temporal emphasis, the opportunity sensed by Jaan Albrecht at the time of his entry in 2011 is considered to be the full integration of Tyrolean Airways given the 100% ownership of its resources rather than the acquisition executed in 1998.

3.1.2 Choice of Research Methodology

The period it took to unfold the opportunity sensing and seizing action, followed by reconfiguration implies chronologic relevance to the assessed development, which took four years. The chronologic nature along with the process-oriented structure of opportunity sensing and seizing and asset reconfiguration matches circumstances calling for use of narrative interviews (cf. Rössl 2008, p. 236).

To fulfil the basic requirement in academic writing of generating novel insights and conclusions (cf. Froschauer/Lueger 2003, p. 11), the research design is laid out to remain flexible and is potentially updated following each interview. Furthermore, precise identification and mapping of Dynamic Capabilities to events planned and performed within the scope of integrating Tyrolean Airways is assumed to be facilitated by allowing interviewees to freely structure their narrations. By providing freedom in structure without forcing a selective theory-driven framework onto the scope of the interviews, the interviewees are enabled to accentuate aspects they consider essential in the researched subject matter (cf. Froschauer/Lueger 2003, p. 16). While the Dynamic Capabilities frameworks specified by Teece (2007) and Helfat (2003) were chosen as starting points in analyzing the integration of Tyrolean Airways from a strategic management point of view for the reasons stated in section 3.1.4, the interviews shall deliver unbiased views on aspects not covered by these models. The chosen qualitative analysis methodology shall support a process of building up a theoretical framework rather than validating preconceived hypotheses (cf. Froschauer/Lueger. 2003, p. 19), which are difficult to set up without access to strategic information.

In addition to the interviews, documents are collected to build the case. These documents include annual reports, the Austrian Airlines website content, timetables and newspaper articles.

3.2 Literature Search

Academic journals are searched in the databases provided by FHWien and WU Wien on the topics Dynamic Capabilities, managerial cognition and competitiveness in the airline industry, airline business models and overall airline industry performance. The books cited in this thesis on Change Management, airline industry basics and strategic airline management were found in the library of FHWien and WU Wien.

3.2.1 Dynamic Capabilities

Due to the large number of publications written on Dynamic Capabilities, the literature research starting-point is a publication listing the most common definitions, the current state of research and statement of the most frequently cited publications. Several journals cited in this publication are chosen due to suitability of their definitions for the airline industry in general and for the considered development of Austrian Airlines in particular. In addition, frequently cited publications are favoured over less frequently cited ones.

Due to the iterative nature of building up the theoretical framework while empirically gathering data, literature research is potentially repeated after each interview. The details on the literature search methodology depend on the outcome of the interviews.

3.3 Interviews

To validate the theoretical framework discussing organizational path dependence, which emphasizes relevance of historic developments for current and future decision making (cf. Sydow et al. 2009, p. 690), both retired and currently active Austrian Airlines Group managers are interviewed.

The first interview is carried out with the Senior Director of Corporate Communications of Austrian Airlines, Peter Thier, who has been employed with Austrian Airlines between February 2012 and today (cf. www.linkedin.com n.d.c). He reported directly to CEO Jaan Albrecht, which provides him with the management view on the corporate change process as well as the view of several internal and external stakeholders, such as cockpit crew, cabin crew, administrative staff, technical staff, Lufthansa management, the work council and press.

The next interview partner following Peter Thier is Peter Glade, the Senior Director of Partner Management of Austrian Airlines, who has been employed with Austrian Airlines between June 2012 and today and is in charge of strategy development and implementation (cf. www.linkedin.com n.d.b). The interview with Peter Glade shall provide insight in the strategic considerations of the integration process of Tyrolean Airways led by Jaan Albrecht.

In addition to the two active Austrian Airlines managers, Stefan Mara, the senior director for legal affairs and compliance is interviewed. He has been employed with Austrian Airlines since 2008 (cf. www.linkedin.com n.d.a). Therefore, in contrast to Peter Glade and Peter Their, he witnessed the eras led by Alfred Ötsch, Peter Malanik and Andreas Bierwirth as

well. He provides in-depth knowledge of the legal aspects of the transition of Austrian Airlines' operations to Tyrolean Airways.

The first interviewee, who is no longer active with the Austrian Airlines Group is Fritz Feitl, who had been the CEO of Tyrolean Airways between 1988 and 2000. He had the reputation of being focused on cost-efficiency and is considered a contributor to the role Tyrolean Airways had within the Austrian Airlines group of being 'the cash cow of Austrian Airlines' (cf. www.boerse-express.com 2000).

Finally, Christian Fitz, formerly active as Pilot at Austrian Airlines and general director at Lauda Air and Tyrolean Airways (cf. www.xing.com n.d) is interviewed. In his last assignment in the Austrian Airlines Group, he was the head of Tyrolean Airways (cf. www.xing.com n.d). He is asked to provide his overall view over the happenings before the transfer of flight operations to Tyrolean Airways.

3.4 Documents

In addition to the narrative interviews, the following documents are collected and utilized to unfold the turning points in the long-lasting integration of Tyrolean Airways:

- Annual reports shall give information on:
    - Financial status of each fiscal year, especially whether profit or loss was made
    - Scheduling and performance of corporate strategies
    - Currently active board members
- Airline timetables shall give information on:
    - Route networks of the Austrian Airlines group members during the relevant years (i.e. imminently before and after acquisition of Tyrolean Airways)
    - Fleet compositions of the Austrian Airlines group members
- Newspaper articles shall give information on:
    - Appointment and withdrawal of board members
    - Competitor reactions to strategic moves of Austrian Airlines
    - Overall performance of Austrian Airlines strategies
    - Personnel reactions to strategic moves of Austrian Airlines

3.5 Evaluation of the Empirical Surveys

Upon transcribing and summarizing the interviews, the empirically surveyed data is compared with the recommendations derived from the theoretical research. The summarization process follows the guidelines of Mayring attributed to the structuring content analysis (cf. Rössl 2008, p. 247). Thereby, the data gathered during the interviews is reviewed against the elaborated dynamic capabilities and their microfoundations, the chosen aspects of managerial cognition.

In the discussion of the interview results, matching comparisons are flagged as potential recommendations for the legacy airline industry and statements lacking theoretical foundation are considered potential new recommendations or are identified as subject to further research. The recommendations derived from the analysis of the empirically surveyed data are summarized in structured manner in the conclusion section.

4 The Airline Industry – An Industry Overview

Despite overall homogeneity of the product 'air travel' provided by airlines to customers, today's airline industry is heterogeneous (cf. *Joppien* 2006, p. 117). Over the past centuries, it has been shaped by deregulation, political, demographic, economic and environmental development as well as by technological innovation (cf. *Shaw* 2011, p.53f). In addition to these external factors influencing airlines, the heterogeneity of the industry is reflected in the number of categories airlines can be classified in.

4.1 The World Airlines

The world's airlines can be classified into a multitude of categories, such as size, traffic rights, legal status, ownership, cost structures, legal restrictions in transferability of stakes, internal cost structures, business models, strategic orientation, branding, sales strategy, handling structures, level of service, structure of served markets, structure of organization, network structure, network management and alliance membership (cf. *Joppien* 2006, p. 117f.).

4.1.1 Size

The world's airlines can be classified into a multitude of categories, such as size, traffic rights, legal status, ownership, cost structures, legal restrictions in transferability of stakes, internal cost structures, business models, strategic orientation, branding, sales strategy, handling structures, level of service, structure of served markets, structure of organization, network structure, network management and alliance membership (cf. *Joppien* 2006, p. 117f.).

4.1.2 Cost Structures

The cost structures of airlines are determined by several factors, of which only limited number are controlled by management of the airlines themselves (cf. *Doganis* 2002, p. 103). While control on external economic factors, such as fuel charges, air navigation service provider costs and airport charges are strongly limited, airlines are capable of controlling costs to a certain extent when related to fleet composition, network structure and labour cost, and to a high extent when attributed to marketing, product management, financial policy, corporate strategy and quality of management (cf. *Doganis* 2002, p. 103). Airlines with high fixed costs tend to have high asset values resulting from procurement of modern aircraft and deployment of state-of-the art IT-systems on the one hand and high personnel costs on the other (cf. *Jop-*

pien 2006, p. 119). Airlines with low fixed costs tend to have low asset values due to possession of depreciated fleets of aircraft and low levels of sophistication in their processes, yet high fuel charges and cost caused by lack of process automation (cf. *Joppien* 2006, p. 119).

4.1.3 Unit Costs

In addition to fixed costs, demand has a substantial influence on an airline's unit cost structure due to the traffic density and sector length of routes served by the respective airline, which in turn drives the choice of aircraft type (cf. *Doganis* 2002, p. 105). Thereby, the more frequently routes are served, the lower the unit costs are (cf. *Doganis* 2002, p. 105). Seasonal variations cause higher unit costs due to the circumstance that fixed costs remain while less revenue is made (cf. *Doganis* 2002, p. 105). In global comparison, airlines are limited in controlling all unit cost drivers, especially in view of hub locations: while the vast majority of important routes to and from Malta can be served with narrow body aircraft, Australian airlines require long-haul aircraft to reach important destination (cf. *Doganis* 2002, p. 105).

4.1.4 Business Models

Traditionally, airlines' business models in Europe could be categorized as follows (cf. *Joppien* 2006, p. 120):

- Passenger airlines
- Cargo airlines
- Hybrid passenger/cargo airlines
- Aircraft operators

Passenger airlines were further subcategorized into (cf. *Bergmann* 2015, p. 427):

- Full Service Carriers (FSC), alternatively referred to as legacy airlines (e.g. Lufthansa)
- Charter airlines, which for the most ferry leisure passengers to holiday resorts
- Regional carriers, which serve low-volume routes using small aircraft types
- Low Cost Carriers, which serve high-density routes with no-frills offers (LCC)

Due to the circumstance that numbers of LCC-served routes continue to increase and that FSCs and charter airlines compete with LCCs on more and more routes, the business models are starting to become difficult to distinguish (cf. *Bergmann* 2015, p. 441). LCCs set the standard for pricing on competing routes, which results in benchmarking based on LCCs (cf.

Bergmann 2015, p. 441). Also, airlines like Air Berlin serve the markets of three of the four passenger airline categories: LCC, FSC and charter (cf. *Bergmann* 2015, p. 441).

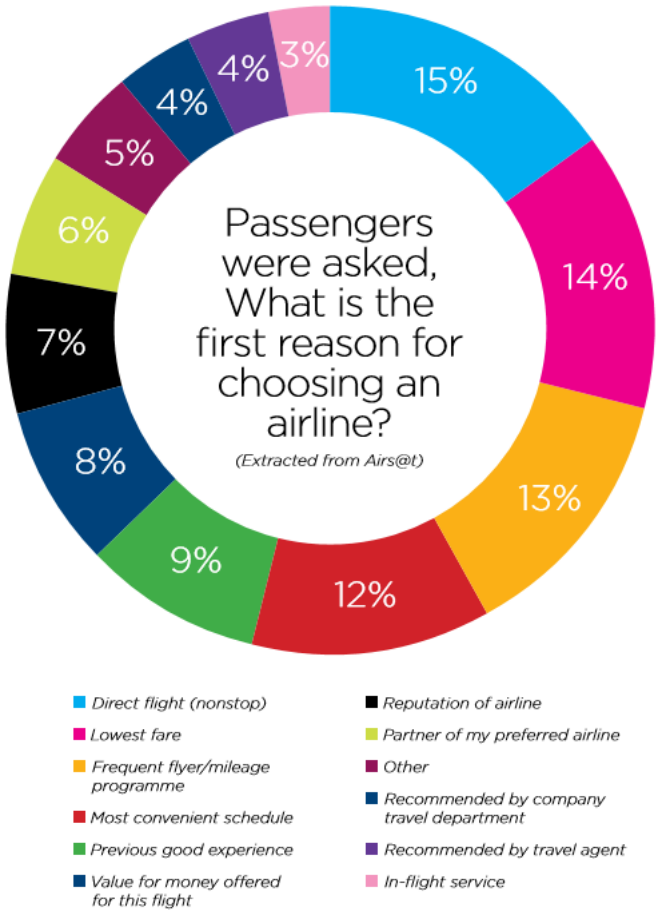
4.2 Competitive Differentiators

Airlines operating in today's markets are capable of choosing among numerous customer service enhancing perks and by-products to generate unique customer experience, which may aim at establishing product offerings, which stand out from the crowd. As an example, customer experience may be considered to comprise the following elements (cf. *Laming/Mason* 2014, p. 20): Reservation services, website services, check-in, lounge, flight delay, boarding and departure, cabin features, seat features, crew and pilots, in-flight entertainment, in-flight food and drink and arrival.

As per empirical research, customer satisfaction, loyalty and advocacy is enhanced by developing cabin features, improving in-flight food and drink service and focusing on personal development of cabin and flight deck staff (cf. *Laming/Mason* 2014, p.22). For the most, the class passengers travel in does not drive the levels of satisfaction, loyalty and advocacy towards specific airlines (cf. *Laming/Mason* 2014, p.24). Instead, travellers of each class judge by the standards they used to, hence airlines are advised to invest in the quality of each class' product (cf. *Laming/Mason* 2014, p.24).

While airline cabin, flight crew and meal-related service have been identified to be relevant to satisfying and holding customers (cf. *Laming/Mason* 2014, p.20-24), additional factors are considered when customers purchase airline tickets and thereby choose specific airlines over others (cf. *www.iata.org* 2015, p. 51). As depicted in Figure 3 below, in-flight service is the determining factor for merely 3% of the consumers. More relevant factors include whether destinations can be reached nonstop, flight scheduling, frequent flyer program membership and price (cf. *www.iata.org* 2015, p. 51).

Figure 3: Reasons Passengers choose specific Airlines



Source: *www.iata.org* 2015 p. 51

4.3 The Austrian Airlines Group

The Austrian Airlines Group is a conglomerate of formerly and currently active Austrian-registered airlines (cf. *www.austrianairlines.ag* n.d.a). The parent company, Austrian Airlines, is based in Vienna-Schwechat, Austria (cf. *www.planespotters.net 2017a*). Throughout the company's history, multiple airlines were acquired, integrated, merged and sold (cf. *www.austrianairlines.ag* n.d.a). These include Austrian Air Services (cf. *en.wikipedia.org* 2016), Lauda Air, Tyrolean Airways and Rheinthalflug (cf. *www.austrianairlines.ag* n.d.a). The Austrian Airlines Group is a listed organization, which is owned by the German national carrier, Lufthansa AG (cf. *www.austrianairlines.ag* 2010). Besides the Austrian Airlines Group, Lufthansa AG owns Swiss, Brussels Airlines and Eurowings (cf. *www.lufthansagroup.com* 2017). Comparable to the Lufthansa Group airlines Lufthansa, Swiss and Brussels Airlines, Austrian Airlines is a legacy network airline, which serves do-

mestic, inner-European and intercontinental routes (cf. *http://os.fltmaps.com* n.d). It operates a fleet of 81 aircraft (cf. *www.austrianairlines.ag* n.d.c) to its 130 destinations worldwide (cf. *www.austrianairlines.ag* 2015a).

4.3.1 History

4.3.1.1 Austrian Airlines and Austrian Air Services

Austrian Airlines was founded in 1957 with equity capital in the amount of 60 Million Austrian Shillings, and commenced scheduled service between Vienna-Schwechat and London Heathrow in 1958 with four chartered Vickers Viscount aircraft (cf. *www.austrianairlines.ag* n.d.a). The capital stock was increased to 290 Million Austrian Shillings by 1963 and to 1 Billion Austrian Shillings by 1972 (cf. *www.austrianairlines.ag* n.d.a). Austrian Airlines was fully state-owned until 1988 when the airline made an initial public offering (cf. *www.austrianairlines.ag* 2010). By this time, the fleet of Austrian Airlines consisted of DC-9s and MD-80s (cf. *en.wikipedia.org* 2017) it used on routes within Europe and to Northern African and Middle Eastern destinations (cf. *http://airline-memorabilia.blogspot.co.at* 2012). Austrian Air Services held a fleet of Fairchild Swearingen Metroliners and Fokker 50s (cf. *en.wikipedia.org* 2016) it used for domestic Austrian service (cf. *airline-memorabilia.blogspot.co.at* 2012). In late 1988 and early 1989, the first two Airbus A310s were delivered, allowing commencement of long-haul service to New York and Tokyo (cf. *www.austrianwings.info* 2016). Two A310s purchased with the purpose of serving Johannesburg and Chicago followed in 1991 and 1992 respectively (cf. *www.austrianwings.info* 2016). Austrian Airlines' mergers and acquisitions activities begin in 1997 when a 37% share in Lauda Air is purchased and a 85,7% share in Tyrolean Airways (cf. *www.austrianairlines.ag* n.d.a). By this time, Austrian Airlines's fleet of MD-80s comprises 20 units and Airbus A340-200 aircraft have been purchased to expand the long-haul network (cf. *www.planespotters.net 2017a*). The MD-80s are foreseen for imminent replacement by Airbus A320, A321 and A319 aircraft, for which delivery has commenced in 1995 (cf. *www.planespotters.net 2017a*). Tyrolean Airways is entirely purchased in 1998 (cf. *www.austrianairlines.ag* n.d.a). The shares in Lauda Air are increased in early 2001 to 54,6%, in late 2001 to 99% and finally to 100% in 2002 (cf. *www.austrianairlines.ag* n.d.a). Rheintalflug is purchased in 2001 and integrated into Tyrolean Airways in 2002 (cf. *www.austrianairlines.ag* n.d.a).

4.3.1.2 Lauda Air

The non-scheduled airline service company Lauda Air was founded by the former Formula 1 pilot Niki Lauda in 1979 with two Fokker 27 aircraft (cf. *www.austrianwings.info* 2009). Following a slow start, the airline started to become successful in 1985 after replacing the Fokker 27s with BAC 1-11s and teaming with the Austrian travel agent ITAS (cf. *www.austrianwings.info* 2009), hence allowing commencement of charter flights to leisure destinations. The fruitful cooperation of Lauda Air and ITAS provided potential for rapid growth: in 1985 one Boeing 737-200 and in 1986 two Boeing 737-300s were added to the fleet (cf. *www.austrianwings.info* 2009). Following successful charter operations, Niki Lauda became interested in entering the scheduled flight market and thus placing his airline into direct competition with Austrian Airlines (cf. *www.austrianwings.info* 2009). For the purpose of starting long-haul service to Hong Kong, Bangkok and Sydney (cf. *www.austrianwings.info* 2009), two Boeing 767-300s were acquired in 1988 (*www.planespotters.net* 2016b). Following the launch of the first long-haul destinations and grant of the scheduled service concession in 1990, Lauda Air introduced service to Miami and Los Angeles via Munich in 1992 and to Paris, Barcelona, Madrid, Berlin and Brussels in 1994 and 1995, hence competing directly against Austrian Airlines (cf. *www.austrianwings.info* 2009). Lufthansa purchases 26,4% of the airline in 1992 (cf. *www.austrianwings.info* 2009). Austrian Airlines' ownership starts with a 36% share in 1997 and is successively increased to 100% by 2002 after purchasing Lufthansa's share in 2000 (cf. *www.austrianwings.info* 2009). By the time, Lauda Air is fully owned by Austrian Airlines, the company's financial situation is near insolvency following 21 years of unprofitable operations (cf. *www.austrianwings.info* 2009). Despite achieving 100% ownership in 2002, the Lauda Air brand is kept for leisure operations until the last Boeing 737 leaves the Austrian Airlines fleet in 2013 (cf. *www.planespotters.net 2017a*).

4.3.1.3 Tyrolean Airways

4.3.2 Previous Strategic Initiatives and Programs

4.3.2.1 Focus East

Focus East is a strategic initiative introduced in 2004 to take advantage of economic growth resulting from the expansion of the EU by Easter European countries (cf. *www.austrianairlines.ag n.d.b*, p. 4). It embraces service from Vienna to primary and secondary Eastern European cities as well as to niche market destinations in the CEE region (cf.

www.austrianairlines.ag 2004, p. 32). Thereby, Austrian Airlines acts as a European East-West gateway (cf. www.austrianairlines.ag 2004, p. 14), hence transferring passengers via Austrian Airlines' Vienna hub between Western European and Eastern European destinations. In 2003, prior to introduction of Focus East, Austrian Airlines already offers the most connections to Central and Eastern European destinations in comparison with other European airlines (cf. *www.austrianairlines.ag* 2004, p. 14). With the Focus East strategy, this unique position is maintained and strengthened (cf. *www.austrianairlines.ag* 2004, p. 14). In addition to Central and Eastern European markets, the Focus East strategy comprises improvements in serving long-haul Asian and Australian destinations (cf. *www.austrianairlines.ag* 2004, p. 32). Focus East starts with service to 28 CEE destinations in 2003 (cf. *www.austrianairlines.ag* 2004, p. 15). By 2008, the Middle East is added to Austrian Airlines' Focus East strategy and in accordance with the average annual growth in passenger volumes in the CEE and Middle East regions of 12%, the number of Focus East destinations reaches 48 (cf. *www.austrianairlines.ag 2009a*, p.13). At this time, Austrian Airlines remains ahead of its competitors. Lufthansa serves 26 CEE destinations from Munich, Czech Airlines 27 from Prague and Swiss Airlines 10 from Zurich (cf. *www.austrianairlines.ag 2009a*, p.14). The IATA Passenger Forecast 2008-2012 predicts growth rates in the CEE region between 9,2% and 7,4% (cf. *www.austrianairlines.ag 2009a*, p. 14). Accordingly, Austrian Airlines holds on to the Focus East strategy and continues to implement it in two ways.

On the one hand, existing service to selected Middle Eastern destinations are upgraded to newly business class equipped Airbus A320s to better reach out to premium target groups (cf. *www.austrianairlines.ag* 2009a, p. 15). On the one hand, new destinations in the secondary CEE market are served, where Austrian Airlines makes an appearance as "first mover", meaning that the destinations in question are not yet served by any other Western European airline (cf. *www.austrianairlines.ag* 2009a, p. 14). Services to these destinations are characterized by low passenger volumes yet by high yields, which marks a clear contrast to business pursued by LCCs, which concentrate on high-volume point-to-point connections to major cities and holiday resorts (cf. *www.austrianairlines.ag* 2009a, p. 14). The Austrian Airlines Group is privileged by its home base. Due to the geographic location of Vienna, a majority of the Focus East destinations can be served by narrow body aircraft, hence providing a competitive advantage over airlines using hubs further West, which would need to use wide body aircraft and thus have higher operative costs (cf. *www.austrianairlines.ag* 2009a, p. 15). In addition to the geographic privilege, the Austrian Airlines Group has a fleet of 50-80 seater aircraft

containing 45 units, which accounts for nearly half of the fleet (cf. *www.planespotters.net 2017a*; *www.planespotters.net* 2016a; *www.planespotters.net* 2016b; *www.planespotters.net* 2016c).

4.3.2.2 Downsizing and Reduction of Long Haul Network

The integration of Tyrolean Airways, Lauda Air and Rheintalflug into the Austrian Airlines Group has increased the number airframes as well as the number of aircraft types operated by the group (cf. *www.planespotters.net 2017a*, *www.planespotters.net* 2016a, *www.planespotters.net* 2016b, *www.planespotters.net* 2016c). The fleet development of the Austrian Airlines Group is illustrated in tables 2-6 below:

Table 2: Rheintalflug Fleet

Rheintalflug												
Year/Aircraft Type	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*
Embraer 145	0	1	3	3	3	0	0	0	0	0	0	0
Dash 8-300	3	4	3	2	2	0	0	0	0	0	0	0
Total Rheintalflug	3	5	6	5	5	0	0	0	0	0	0	0

Soucre: Own Diagram

Table 3: Lauda Air Fleet

Lauda Air												
Year/Aircraft Type	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*
Boeing 737-300	2	2	2	2	2	1	1	1	0	0	0	0
Boeing 737-400	3	3	2	2	2	2	2	1	0	0	0	0
Boeing 737-600	0	0	2	2	2	2	1	1	1	1	1	0
Boeing 737-700	0	0	0	2	2	2	2	2	2	2	2	1
Boeing 737-800	1	2	2	2	3	4	4	6	7	7	7	7
Boeing 767-300	2	3	3	4	4	5	6	6	2	2	0	0
Boeing 777-200	2	2	2	2	3	3	3	3	0	0	0	0
Canadair Regional Jet CRJ-100	9	9	8	6	4	4	3	0	0	0	0	0
Total Lauda Air	19	21	21	22	22	23	22	20	12	12	10	8

Source: Own Diagram

Table 4: Austrian Airlines Fleet

Austrian Airlines												
Year/Aircraft Type	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*
Airbus A310-300	4	4	2	0	0	0	0	0	0	0	0	0
Airbus A319-100	0	0	0	0	0	0	3	6	7	7	7	7
Airbus A320-200	3	4	6	8	8	8	8	8	8	8	8	8
Airbus A321-100	3	3	3	3	3	3	3	3	3	3	3	3
Airbus A321-200	2	2	2	3	3	3	3	3	3	3	3	3
Airbus A330-200	1	2	4	4	4	4	4	4	4	4	0	0
Airbus A340-200	2	2	2	2	2	2	2	2	2	0	0	0
Airbus A340-300	1	2	2	2	2	2	2	2	2	2	0	0
Boeing 737-600	0	0	0	0	0	0	0	0	0	0	0	2
Boeing 737-700	0	0	0	0	0	0	0	0	0	0	0	1
Boeing 767-300	0	0	0	0	0	0	0	0	4	4	6	6
Boeing 777-200	0	0	0	0	0	0	0	0	3	4	4	4
McDonell Douglas MD-81	4	3	1	1	1	1	1	0	0	0	0	0
McDonell Douglas MD-82	5	5	4	2	2	2	2	1	0	0	0	0
McDonell Douglas MD-83	2	2	2	2	2	2	2	2	0	0	0	0
McDonell Douglas MD-87	5	5	5	5	4	4	4	4	0	0	0	0
Fokker 70	6	6	6	6	6	4	4	3	3	3	3	3
Total Austrian Airlines	38	40	39	38	37	35	38	38	39	38	34	37

Source: Own Diagram

Table 5: Tyrolean Airways Fleet

Tyrolean Airways												
Year/Aircraft Type	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*
Canadair Regional Jet CRJ-100	0	0	0	0	0	0	1	4	3	1	0	0
Canadair Regional Jet CRJ-200	8	9	11	12	13	13	14	14	14	14	14	14
Dash 8-100	4	4	4	3	2	1	0	0	0	0	0	0
Dash 8-300	10	10	12	12	12	12	12	12	12	12	12	11
Dash 8-400	0	0	4	5	6	8	8	10	10	10	10	11
Fokker 70	6	6	6	6	6	6	6	6	6	6	6	6
Fokker 100	0	0	0	0	0	0	6	10	12	14	15	15
Embraer 145	0	0	0	0	0	3	0	0	0	0	0	0
Total Tyrolean Airways	28	29	37	38	39	43	47	56	57	57	57	57

Source: Own Diagram

Table 6: Total Austrian Airlines Group Fleet

Year/Aircraft Type	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*
Total (AAG):	88	95	103	103	103	101	107	114	108	107	101	102
Total Long-haul:	8	11	13	14	15	16	17	17	17	16	10	10

Source: Own Diagram

Several aircraft types comprised by the group are competing models supplied by different vendors serving equal purposes with respect to passenger and cargo volumes and range. Examples include the following:

- While Austrian Airlines used MD-80s for medium-haul service, which were being replaced by aircraft of the Airbus A320 family, Lauda Air used Boeing 737s
- Lauda Air used Boeing 767-300s and B777-200s for their long-haul services, while Austrian Airlines had a fleet of Airbus A310-300s, A330-200s, A340-200s and A340-300s by the time the companies were merged
- Tyrolean Airways used Bomardier DeHavilland Dash-8s for their commuter routes, while Austrian Air Services had chosen Fokker 50s

In view of these examples, harmonizing the fleet with the aim to reduce aircraft types was an obvious next step. In the era of Alfred Ötsch, which lasted from 2006 to 2009 (cf. *www.austrianairlines.ag* n.d.a), the decision was made to sell the more modern and higher valued Airbus A330-200, A340-200 and A340-300 aircraft and to keep using the Boeing 767 and 777 aircraft inherited from the merger with Lauda Air (cf. *www.nzz.ch* 2006; *www.planespotters.net 2017a*, *www.planespotters.net* 2016a). This decision required cancellation of numerous existing long-haul routes, including service to Australia, Shanghai, Kathmandu and Male (cf. *www.nzz.ch* 2006). Benefits were achieved by generating cash by selling valuable aircraft and reducing cost by cancelling underperforming routes (cf. *www.trend.at* 2007). The risks taken by this approach on the other hand were increased maintenance cost due to age of the remaining long-haul fleet as well as higher unit cost resulting from the circumstance that fix costs, such as crew, overall maintenance and air navigation services were spread over a smaller fleet (cf. *www.trend.at* 2007). In addition, the Focus East strategy and network feeding were jeopardized (cf. *www.nzz.ch* 2006). The sale of the long-haul Airbus aircraft was among the activities that allowed Austrian airlines to report a positive financial result in 2007 (cf. *www.austrianairlines.ag* 2009a, p. 21; *Schneid* 2012). Retrospective audits however, revealed that the terms of reporting were inadequate (cf. *Schneid* 2012). Due to usage of an improper interest rate for discounting while at the same time the need to depreciate the aircraft fleet was waived, a plus of 3,3 Million Euros was reported (cf. *Schneid* 2012). The interest rate for discounting used by Austrian Airlines in 2007 was 5% while Lufthansa used 9,81% in the same year and Austrian Airlines increased to 8% in the following year (cf. *Schneid* 2012). Had Austrian Airlines used a discounting interest rate of 8% in 2007, the financial result would have yielded a minus of 205.5 Million Euros (cf. *Schneid* 2012). Accord-

ingly, the report of 2008 exhibited a minus of 204.3 Million Euros (cf. *www.austrianairlines.ag* 2009a, p. 36), which demonstrates that further measures are urgently required to avoid bankruptcy and further downsizing of Austrian Airlines (cf. *Schneid* 2008a).

4.3.2.3 The Search for an Investor

The financial state of Austrian Airlines deteriorated throughout 2008. Towards the end of the year, instant attention was required and Ötsch's freedom of action was restricted (cf. *Schneid* 2008a; *http://newsv1.orf.at* 2008). To avoid reduction of the fleet, layoffs, cannibalization of the existing network (cf. *Schneid* 2008a) and insolvency (cf. *Schneid* 2015), Austrian Airlines required support by a strategic partner in resolving internal structural issues (cf. *http://newsv1.orf.at* 2008). Prior to passing a recommendation to the Austrian government to prompt privatization of Austrian Airlines (cf. *http://newsv1.orf.at* 2008), Alfred Ötsch failed in an attempt to gain an investor, willing to increase the capital of Austrian Airlines (cf. *Nikbakhsh* 2009). In early 2008, the Saudi sheikh Mohammed Bin Issa Al Jaber was interested in investing 150 Million Euros in increasing the capital of Austrian Airlines (cf. *Schneid* 2015). The published financial result of 2007 featuring a profit of 3,3 Million Euros was among the bundle of information received by Al Jaber (cf. *Schneid* 2015). Upon publication of the first quarter results of 2008, which stated a loss of 60,4 Million Euros, Al Jaber cancelled the signed deal and sued Austrian Airlines amongst others for malicious deceit (cf. *Schneid* 2015).

Following a recommendation by the Boston Consulting Group, the Austrian state holding ÖIAG was advised to sell its 42,75% share to a private investor (cf. *http://newsv1.orf.at* 2008), which was only possible if the Austrian government formally passed the order to privatize (cf. *Schneid* 2008b). The privatization order was passed in August 2008 (cf. *www.austrianairlines.ag* n.d.a). The list of potential buyers, which was managed by the investment bank Merrill Lynch (cf. *Schneid* 2008c) comprised European and Asian airlines including Air China, Turkish Airlines, Air One, S7 (cf. *Nikbakhsh* 2009), Lufthansa, KLM/Air France, Aeroflot, Qatar Airways, Singapore Airlines and All Nippon Airways (cf. *Schneid* 2008b). Merrill Lynch shortlisted Lufthansa, KLM/Air France and S7, who were compelled to submit a formal offer by October 21, 2008 (*http://diepresse.com* 2008). While S7 failed to submit a binding proposal (cf. *http://derstandard.at* 2008), KLM/Air France revoked their proposal in accordance with accusations that ÖIAG boss Peter Michaelis had privileged Lufthansa in the bidding process and about lacking transparency (cf. *Nikbakhsh* 2009). Ac-

cordingly, Lufthansa was the sole potential buyer left in the shortlist. Due to the length of the privatization process, which was underestimated by Michaelis (cf. *Schneid* 2008b) and in order to survive, 200 Million Euros of Austrian tax funds were invested to keep Austrian Airlines alive (cf. *Nikbakhsh* 2009) until taken over by Lufthansa in December 2008 (cf. *www.austrianairlines.ag* 2010). This amount including interest was paid back to the Austrian government using the 500 Million Euros Austrian tax funds Lufthansa received for restructuring the airline (cf. *Nikbakhsh* 2009). Upon completion of the privatization process, Alfred Ötsch's contract was cancelled prematurely in January 2009 and Andreas Bierwirth and Peter Malanik continued to lead the airline as CEOs (*http://derstandard.at* 2009).

4.3.2.4 Austrian's Low Cost Strategy Era

In 2009, as part of the overall turnaround efforts, an initiative to reduce unit costs was launched (cf. *www.austrianairlines.ag* 2010). The core measure set to achieve this goal was to retire all 50-seater aircraft sub fleets, which consisted of Canadair Regional Jets (cf. *www.airfleets.net* 2016a) and Bombardier De-Havilland DHC-8-300 (cf. *www.airfleets.net* 2016b). At the same time, Austrian Airlines reduced its activity in the Charter business (cf. *www.austrianwings.info* 2011), hence freeing up aircraft capacity for use on scheduled services, previously served by 50-seater aircraft (cf. *www.austrianairlines.ag* 2010). In addition to supporting the organization's turnaround, the unit cost reduction measures aimed at facilitating more competitive pricing. Despite focus on reducing unit cost, Austrian's fleet still contained two medium-haul aircraft types: the Boeing 737 and Airbus A320 family (cf. www-airfleets.net 2016c).

4.3.3 Today's Operations

Jaan Albrecht's turnaround implemented by shifting Austrian Airlines operations to Tyrolean Airways was successful: in 2013 profit was achieved (cf. https://investor-relations.lufthansagroup.com 2014, p. 68) for the first time since 2007 (cf. www.austrianairlines.ag 2008b, p. 78). The positive year-end results were continued through today: in 2016 Austrian's financial year closed with a positive EBIT of 65 Million Euros (cf. www.austrianairlines.ag 2017).

Desipte the positive results, optimization continues: today, Austrian Airlines has a widely-harmonized fleet consisting of (cf. www.austrian.com n.d.):

- Airbus A319, A320 and A321 aircraft for medium-haul in the passenger range of 138 - 200
- Bombardier DeHavilland Dash-8 Q400 aircraft for short-haul carrying up to 76 passengers
- Boeing 777-200 and 767-300 aircraft for long-haul service
- Embraer 195 aircraft for short- and medium-haul service, replacing the aging fleet of Fokker 70s and Fokker 100s

5 Empirical Results

5.1 Dynamic Capabilities

5.1.1 Sensing

5.1.1.1 Financial Turnaround

In 2011 it became apparent that Austrian Airlines was in severe financial trouble and that substantial measures were required to be taken (cf. *Mara* 2015, p. 1). After privatization had been initiated by sale of the ÖAIG holding's 42% share to Lufthansa in 2008 (cf. www.austrianairlines.ag 2008a), Lufthansa's share rose to 95,4% in September 2009 (cf. austrianairlines.ag 2010). Even though the acquisition was subsidized by the Austrian state in the magnitude of €500.000.000 (cf. *Fritz* 2015) and the post-acquisition financial development of the airline in 2009 and 2010 were satisfactory, 2011 was observed to be year in which economies surrounding target markets showed signs of decline (cf. *Mara* 2015, p. 1). Turnaround measures, which had been taken previously, were deemed not sufficiently effective to handle the 2011 economic situation and thus negative forecasts were made for the imminent future (cf. *Mara* 2015, p. 1). Accordingly, "sensing" the opportunity of rescuing the organization by implementing a turnaround plan was done with support of the financial auditors, who expressed growing concern and mentioned the scenario of filing a bankruptcy petition in case no persist forecast could be delivered (cf. *Mara* 2015, p. 2; *Thier* 2015, p. 1). The aim was to save between 240 and 260 Million Euros, which represented approximately 10% of the overall costs (cf. *Their* 2015, p. 1).

5.1.1.2 Transferal of Flight Operations to Tyrolean Airways

The main component of the successful turnaround of Austrian Airlines, the transfer of the flight operations to Tyrolean Airways was, albeit executed by Jaan Albrecht, an idea which had been on hand before Jaan Albrecht joined Austrian Airlines (cf. *Fitz* 2015, p. 1; *Mara* 2015, p. 1; *Feitl* 2015, p. 1). It was a logical solution, which did not require creative potential to unfold (cf. *Fitz* 2015, p. 1). The two main reasons the idea had not materialized before were that on one the one hand, previous managers did not exhibit sufficient courage to execute the necessary steps (cf. *Fitz* 2015, p. 1), on the other, freedom of action had been too limited to allow managers to pursue sustainable reorganization measures (cf. *Feitl* 2015, p. 1).

5.1.1.3 Fleet Harmonization

Austrian Airlines inherited a multitude of different aircraft types throughout the history of acquisitions of Tyrolean Airways, Lauda Air and Rheinthalflug. One the one hand, the acquisition of Lauda Air brought a fleet of Boeing 737s, 767s, 777s and Bombardier Canadair Regional Jets into the Austrian Airlines fleet (cf. www.airfleets.net n.d.b), and on the other the acquisition of Tyrolean Airways brought a fleet of Bombardier Dash 8s, Bomardier Canadair Regional Jets, Fokker 70s and Fokker 100s (cf. www.airfleets.net n.d.c). At the time Austrian Airlines acquired Lauda Air and Tyrolean Airways, Austrian Airlines operated a fleet of Airbus A319/320/321s, Airbus A330s, Airbus A340s and Fokker 70s. (cf. www.airfleets.net n.d.a). The collective post-merger fleet comprised numerous aircraft types, which are comparable in performance, yet manufactured by different vendors. As an example, the Boeing 777-200 and the Airbus 340-300 are both long-haul aircraft, which are capable of operating long-haul routes carrying between 275 and 315 passengers with ranges between 6.200 and 7.400 nautical miles (cf. www.austrian.com n.d.a; www.airbus.com n.d.a). From a cost point of view, the multitude of different aircraft types was a problem, for each type required dedicated (cf. *Their* 2015, p. 3):

- Simulators for pilot training
- Mechanical engineers
- Type registration certificates
- Spare part stocks and tools
- Maintenance contracts with the vendors

Since the acquisitions of Lauda Air and Tyrolean Airways, each CEO's period has brought contributions to achieving fleet commonality. In the era of Alfred Ötsch, the number of long-haul aircraft types has been reduced from four to two (cf. www.wienerzeitung.at 2006). While Austrian Airlines was run by Andreas Bierwirth and Peter Malanik, the 50-seater aircraft types including the Bombardier Dash 8-300 and Canadair Regional Jet were disposed of, aiming at reducing unit costs by serving routes they used to operate on with 80-100 seater aircraft (cf. www.wirtschaftsblatt.at 2008). Fleet management was one of the agenda topics of the turnaround focus groups appointed during the era of Peter Malanik and Andreas Bierwirth (cf. *Mara* 2015, p. 5). Upon entry, Jaan Albrecht continues the fleet harmonization plan by phasing out the Boeing 737s, which have similar characteristics to the Airbus 320s (cf. *Their* 2015,

p. 3). It was concluded by initiating replacement of the aging fleet of Fokker 70s and 100s by Embraer 190s (cf. *Their* 2015, p. 8).

5.1.1.4 Renegotiation of Existing External Stakeholder Contracts

In 2011 when Jaan Albrecht started his CEO tenure at Austrian Airlines, numerous disadvantageous contracts were in place, such as a rental contract with the county of Lower Austria over the former headquarters building, which no longer existed (cf. *Their* 2015, p. 2). After being neglected by previous managements, this contract along with others was renegotiated (cf. *Their* 2015, p. 2). Thereby, contracts with key suppliers were renegotiated in the sense of not solely asking for delivery scope and price reduction, instead Jaan Albrecht sought intelligent win-win situations (cf. *Glade* 2015, p. 5). While owing respect to the seriousness of the situation Austrian Airlines was in when entering negotiations and emphasizing importance of results the financial health of the organization would benefit from, solutions were identified to reduce cost for Austrian Airlines and increase sales for the supplier (cf. *Glade* 2015, p. 5). For instance, the contract renegotiations with the catering firm Do&Co resulted in lower catering costs for Austrian Airlines on the one hand, and in the pronouncement of the right for Do&Co to individually sell their special meals in the economy class (cf. *Glade* 2015, p. 5). Another example is the deal, which was achieved with the airport (cf. *Glade* 2015, p. 5). In the negotiations, which were – as a matter of fortunate coincidence - led between newly appointed CEOs on both sides, the long-standing bad relationship between the airport and Austrian Airlines was turned for the better (cf. *Glade* 2015, p. 5).

5.1.1.5 Optimization of the Aircraft Maintenance Schedule

In previous times, aircraft maintenance schedules were laid out to ensure continuous utilization of the maintenance facilities throughout the year (cf. *Glade* 2015, p. 6). Consequently, aircraft maintenance events were spread over all seasons (cf. *Glade* 2015, p. 6). Austrian Airlines' flight operations however exhibit deltas in demand between the summer and winter seasons of up to 40% (cf. *Glade* 2015, p. 6). These circumstances led to aircraft downtimes during peak seasons, in which the demand would have accounted for full aircraft utilization (cf. *Glade* 2015, p. 6). In view of this inefficiency, the entire maintenance program was reviewed and remodeled to schedule heavy maintenance activity during the winter seasons (cf. *Glade* 2015, p. 6). A side effect of this measure was that C-checks were partially performed up to half a year prior to their due dates, on the other hand, from a maintenance perspective, all aircraft were made available for full operability during the busy summer seasons (cf. *Glade*

2015, p. 6). These maintenance schedule shifts were facilitated through successful negotiations with the ground personnel's work council, which in turn became possible due to cultural changes encouraging investments in the product and savings in the internal processes (cf. *Glade* 2015, p. 6).

5.1.2 Seizing

5.1.2.1 The „Austrian Solution"

In 2006 when Vagn Sörensen's tenure was approaching its end and appointment of a new CEO became due, Alfred Ötsch, who had been serving Austrian Airlines as a supervisory board member since 2001 was deemed the preferred candidate (cf. *Feitl* 2015, p. 5). His ties with Austrian politics are evident given the support he received from former minister of finance, Karl-Heinz Grasser (cf. *diepresse.com* n.d.) and – according to rumours – by the former federal chancellor Wolfgang Schüssel (cf. *Feitl* 2005, p. 5). Alfred Ötsch was deemed most suitable for implementing an "Austrian solution", which implied Austria's economic and political agendas would be met most adequately (cf. *Kilan/Fritz* 2006).

5.1.2.2 Financial Turnaround

As a consequence of the seriousness of the situation Austrian Airlines was facing in 2011, numerous focus groups were established (cf. *Mara* 2015, p. 1). The groups dealt with finding means of improving financial performance and were split into the following categories (cf. *Mara* 2015, p. 1):

- Airport contracts
- Ground staff collective contracts
- Flight crew collective contracts

The focus groups were already established during the Malanik/Bierwirth era and contained subject matter experts for each category (cf. *Mara* 2015, p. 1). The flight crew collective contracts group for instance, contained active flight crew members, controllers, human resources employees, the head of the IT department, Andreas Zerlauth and the head of the legal department, Stefan Mara (cf. *Mara* 2015, p. 4).

The flight crew collective contract focus group elaborated a "plan A" and a "plan B", where "plan A" aimed at achieving satisfactory results by negotiating with the work council and "plan B" was what turned out to be the transferal of the collective contracts to Tyrolean Airways flight operations (cf. *Mara* 2015, p. 4). The idea of transferring flight operations to Ty-

rolean Airways was, albeit executed in Jaan Albrecht's era, not brought up by Jaan Albrecht (cf. *Mara* 2015, p. 1). In contrast, it was one of several options elaborated in the era of Malanik and Bierwirth (cf. *Mara* 2015, p. 1). Other "plan B" variants included (cf. *Mara* 2015, p. 1):

- transferring flight operations to a newly founded firm in Switzerland, where the old collective contracts are not valid
- splitting Austrian Airlines into dedicated sub-firms for short, medium and long haul, hence providing an organizational platform, which facilitates bankruptcy of single non-performing sub firms

In the end, the turnaround of Austrian Airlines was achieved by transferring the flight operations to Tyrolean Airways, which was the original idea of the head of IT, Andreas Zerlauth (cf. *Mara* 2015, p. 1)

5.1.2.3 Transferal of Flight Operations to Tyrolean Airways

Based on the circumstance that the idea of transferring the flight operations of Austrian Airlines to Tyrolean Airways had been developed under the leadership of Peter Malanik and Andreas Bierwirth (cf. *Mara* 2015, p. 1), they were the CEOs under which the change was first promoted (cf. *Mara* 2015, p.1). Peter Malanik's means of communication were tailored to politics, which had influence on the organization until privatized (cf. *Mara* 2015, p. 2-3). One characteristic of Peter Malanik's political and consensus-oriented manner of communicating is observable by means of the iterations the board took with the flight staff's work council in an attempt to seek a mutually agreed way to successfully restructure the organization (cf. *Mara* 2015, p. 2). The negotiations, which took place on numerous occasions and lasted though several nights, were deemed successful at the negotiating table, yet overthrown retrospectively (cf. *Mara* 2015, p. 3), even though the written negotiation records had been mutually signed previously (cf. *Glade* 2015, p. 1).

Jaan Albrecht upon takeover was less consensus-oriented (cf. *Mara* 2015, p. 2). He communicated in a clear and unambiguous manner towards a multitude of internal and external stakeholders that their contributions to the austerity plan aiming at saving Austrian Airlines from imminent bankruptcy would be required to allow the organization to continue to exist (cf. *Their* 2015, p. 1, *Glade* 2015, p. 1).

Partially resulting from prior industry experience, prior experience in fulfilling the roles of a multitude of industry-relevant stakeholders and personal fate, Jaan Albrecht cultivates a clear and transparent management style (cf. *Glade* 2015, p. 3). He shows willingness to accept critique in his considerations, however once considerations turn into decisions, he adheres to them fully transparently (cf. *Glade* 2015, p. 3).

Jaan Albrecht's management style has induced unresolved disagreements with the former head of Austrian Airlines' flight crew work council, Karl Minhard, who as a long-serving flight captain, had a strong take on how the airline industry works and how the precarious situation Austrian Airlines was in 2011 was to be solved (cf. *Glade* 2015, p. 3-4).

5.1.2.4 Disputes with the Austrian Airlines Cockpit Staff Work Council

An integral part of the turnaround plan for Austrian Airlines was cost savings throughout the organization, which also comprised personnel expenses of the cockpit staff (cf. *Their* 2015, p. 2). While the remaining stakeholders and personnel groups were willing to support in financial recovery of the organization, the Austrian Airlines cockpit staff, which comprised the Airbus A320 family and Being 767 and 777 cockpit crews, declined cooperation from the beginning (cf. *Their* 2015, p. 2). Extensive effort had been invested in attempting to find agreement, with the cockpit staff work council (cf. *Glade* 2015, p. 1). The level of advancement of the negotiations had yielded mutually signed slides, however the agreement never materialized (cf. *Glade* 2015, p. 1). Despite knowing that Austrian Airlines was in a critical state and that insolvency was imminent (cf. *Their* 2015, p. 1), the plan to transfer operations to Tyrolean Airways was not considered to be an option Jaan Albrecht had the courage to pursue (cf. *Glade* 2015, p. 1). In this regard, the unbelieving Austrian public, the work councils and the Austrian Airlines employees were proven wrong as Jaan Albrecht realized that there were no alternative options left and initiated the transfer in a swift action (cf. *Glade* 2015, p. 1). Until the very end of the negotiations, the work council held on to their belief that a solution, which does not affect the cockpit staff, could emerge (cf. *Glade* 2015, p. 1). This assumption was partially fueled by the view of the work council that the cockpit staff had already made a large deal of commitments towards to previous austerity plans and that thus no further commitments would be legit (cf. *Glade* 2015, p. 2). Towards the end, the work council invested effort in presenting lists of commitments cockpit staff had made in the past instead of contributing to finding solutions for the present situation (cf. *Glade* 2015, p. 2).

5.1.2.5 Change Agents

The change agent initiative gathered high potentials from all organizational areas and arranged them in groups of between five and 10 people, aiming at elaboration means of improving the performance of the organization (cf. *Glade* 2015, p. 6).

5.1.3 Reconfiguring

5.1.3.1 Impediments given by previous Owners

The need for reconfiguring the organization was evident ever since multiple companies were merged into the Austrian Airlines Group. The former CEO Vagn Sörensen realized during his period at Austrian Airlines the potential to consolidate the fleet and ironically called it a "butterfly collection" (cf. *Nikbakhsh* 2009). The spare part stocks required for maintaining all active aircraft types were just one example of superfluous costs (cf. *Nikbakhsh* 2009). Even though Sörensen did realize the need to restructure the asset base of the organization, his freedom of action was limited by the ownership structures. The ÖIAG had substantial impact on Sörensen's decision power, yet limited industry knowledge (cf. *Feitl* 2015, p.1; *Their* 2015, p. 5). This was due to the structural composition of the ÖIAG, which at that time consisted mainly of bakers (cf. *Feitl* 2015, p.1). Moreover, lacking industry knowledge is among the reasons the supervisory board was not capable of questioning how the CEOs motivated negative developments with external factors (cf. *Feitl* 2015, p.1). As a consequence, sustainable reconfiguration measures could only commence upon change of ownership (cf. *Feitl* 2015) to a private industry partner, hence Lufthansa (cf. *Their* 2015, p. 5). To summarize, passing ownership of Austrian Airlines from a state-owned holding to a privately-owned industry partner was an essential step to facilitate sustainable management of the airline by private rules (cf. *Their* 2015, p. 5).

5.1.3.2 Mergers and Acquisitions

Austrian Airlines resorts to a rich history of mergers and acquisitions. In 1997, the consideration that an airport as small as Vienna would not be able to handle multiple competing carriers with the same home base resulted in ambitions to seek cooperation among the Austrian carriers rather than competition (cf. *Fitz* 2015, p. 1). Accordingly, Austrian Airlines took a 36% share in Lauda Air and a 85,7% share in Tyrolean Airways (cf. *www.austrianairlines.ag* n.d.a). By 1998 Tyrolean Airways, by 2001 Rhentalflug and by 2002 Lauda Air were each in

100% possession of Austrian Airlines (cf. *www.austrianairlines.ag* n.d.a). Each acquired company differed from Austrian Airlines as well as among each other (cf. *Fitz* 2015, p. 2):

5.1.3.2.1 Austrian Airlines

Austrian Airlines is – and especially has been in the past - a well-staffed organization with experts for every relevant subject matter (cf. *Fitz* 2015, p. 2). The airline is well organized and administered. As a result of the organization's past as a state-owned national carrier, cost-efficiency has only become an issue in the recent past (cf. *Fitz* 2015, p. 2). Until then, the organization's focus was more on professionality, excellence and service rather than cost-efficiency (cf. *Fitz* 2015, p. 2). The company's history caused inertia, which partially hindered view on the market (cf. *Fitz*, p. 2).

5.1.3.2.2 Lauda Air

While Austrian Airlines had the footprint of a professionally and excellence-focused organization, Lauda Air was considered Austria's fun airline, comparable to an event agency (cf. *Fitz*, p. 2). The spirit among the flight staff was generally relaxed (cf. *Fitz*, p. 2). The cabin crew wore blue jeans as parts of their uniforms (cf. *Fitz*, p. 2). The company's personnel structure was flat and less fine-grained than Austrian's. As opposed to Austrian Airlines, Lauda Air did not have dedicated subject matter experts for each discipline and they did not stick to classical conventions (cf. *Fitz*, p. 2). The in-flight meals were provided by Do&Co, which aided in developing the unique customer experience (cf. *Fitz*, p. 2).

5.1.3.2.3 Tyrolean Airways

Tyrolean Airways was known as the "serious" and cost-efficient airline within the Austrian Airlines group (cf. *Fitz*, p. 2). The corporate culture was perceived as dry and truthful (cf. *Fitz*, p. 2). Therefore, no unnecessary or injudicious investments were made (cf. *Fitz*, p. 2). In contrast, in 2004 when a major part of the growth in the Austrian Airlines Group was realized in the fleet of Tyrolean Airways (cf. *Feitl* 2015, p. 2), second-hand Fokker 100s were purchased at low costs of purchase (cf. *Fitz*, p. 5), while Austrian Airlines was receiving new Airbus A319s (cf. *www.planespotters.net 2017a*)

5.1.3.3 Functional Mergers versus Decentralization and Cospecialization

Despite 100% acquisition of Tyrolean Airways in 1998, the airline group purchased by Lufthansa in 2009 did not only have redundancies in the fleet composition, it also had two

separate flight operations administrations, two different collective contracts and two different headquarters (cf. *Their* 2015, p. 3-4). While the Tyrolean Airways headquarters including administrative departments planning and coordinating flights, crew and aircraft were located in Innsbruck, the equivalent departments for Austrian Airlines were located in Vienna (cf. *Their* 2015, p. 4). Maintaining the Austrian Airlines Group flight network kept two separate redundant administrative bodies busy (cf. *Their* 2015, p. 4). This accounted for excess personnel in the magnitude of approximately 100 employees in a 6000-employee organization (cf. *Their* 2015, p. 4). Due to the fact that consolidating flight operations would have required layoffs of approximately 100 employees, none of the previous CEOs felt comfortable picking up this potential initiative (cf. *Their* 2015, p. 4). In 2012 however, this topic was addressed and the decision was made by Gaudenz Ambühl, the managing director of Tyrolean Airways, to move several administrative bodies to Innsbruck (cf. *Their* 2015, p. 4). One year later, Ambühl resigned and his successor, Klaus Fröhse, decided the contrary (cf. *Their* 2015, p. 4), which was disadvantageous in multiple ways. By reducing the transfer of Austrian Airlines' operations to Tyrolean Airways to flight operations only, benefits which could have been achieved in overall organization internal efficiency were not taken advantage of (cf. *Feitl* 2015, p. 2). Moreover, Austrian Airlines did not show commitment to the more cost-efficient Tyrolean Airways processes (cf. *Feitl* 2015, p. 2). Instead, employees no longer needed in Innsbruck received job offers for positions in Vienna (cf. *Feitl* 2015, p. 2). The rejection of the Tyrolean Airways processes was evident through all hierarchy levels: Christian Fitz, who was the CEO of Tyrolean Airways at the time Jaan Albrecht became the CEO of Austrian Airlines was not assigned any role in the process of transferring flight operations to Tyrolean Airways, even though he had gained long-standing experience, serving for Austrian Airlines, Lauda Air and Tyrolean Airways throughout his career in the Austrian Airlines Group (cf. *Feitl* 2015, p. 2).

The volatility in decision making featured by the contrasting statements made by Ambühl and Fröhse (cf. *Their* 2015, p. 4) and the non-commitment to the administrative processes of Tyrolean Airways had a negative impact on the team spirit and overall corporate culture, and potentially caused resentment towards the idea of transferring flight operations to Tyrolean Airways (cf. *Their* 2015, p. 4; *Feitl* 2015, p. 6).

5.1.3.4 Cultural Inertia

5.1.3.4.1 Austrian Airlines is too big to fail

Bevore the era of Jaan Albrecht, Austrian Airlines as an organization was still considered a core Austrian enterprise, which is so deeply imprinted in the Austrians' souls that it would not simply fail (cf. Glade 2015, p. 2). The pilots were not able to believe that all potential saviors would let the airline shut down, given the importance of tourism for Austrian economy (cf. Glade 2015, p. 2). Consequently, the pilots did not take the announced turnaround measures seriously and remained in faith that the airline would be rescued, for example by the Austrian government, last-minute (cf. Glade 2015, p. 2). In addition, managers previously running Austrian Airlines bluffed their employees by overdramatizing the according financial situation (cf. Glade 2015, p. 2). Upon purchase of Austrian Airlines by Lufthansa, the flight crew continued to act as if both, the Austrian government and Lufthansa were interested in keeping the airline in business, where in reality it was not (cf. Glade 2015, p. 2). In addition, Jaan Albrecht's tenure had just begun at the time he was forced to demand substantial commitments from the flight crew, which prevented him from gaining a level of trust from, which would have supported him in his endeavors to reach agreement with the flight personnel's work council (cf. Glade 2015, p. 2).

5.1.3.4.2 Cultural Clashes between Austrian Airlines Group Members

In the course of the M&A activities, corporate cultures were also attempted to be merged (cf. Glade 2015, p. 2). To date, signs of incompatibility of the cultures, especially of Lauda Air's and Austrian Airlines' remain visible (cf. Glade 2015, p. 2). As an example, former Lauda Air pilots continue to call themselves Lauda Air or ex-Lauda Air pilots (cf. Glade 2015), even though the last aircraft painted in their company's livery left the fleet in 2013 (cf. www.planespotters.net 2016a). The persistent state of cultural incompatibility between meanwhile Austrian Airlines employees has several known reasons. On the one hand, all three companies had vastly different cultures before entering the Austrian Airlines Group, on the other, merging companies was perceived as a threat, which caused resistance (cf. Fitz 2015, p. 3). A source of the perceived threats was the question, which company is better at doing basically the same thing, hence to move passengers and cargo from one place to another (cf. Fitz 2015, p. 3).

5.2 Dynamic Managerial Capabilities

5.2.1 Managerial Human Capital

5.2.1.1 Jaan Albrecht

Prior to commencing his tenure as CEO at Austrian Airlines, Jaan Albrecht held a multitude of different positions in the airline industry, starting as a pilot at Mexicana in 1973 and serving the airline for 25 years (cf. *www.bloomberg.com* n.d.). While employed at Mexicana he held several positions (cf. *www.bloomberg.com* n.d.):

- First Officer
- Captain
- Boeing 727 chief pilot
- Senior vice president of operations
- Senior vice president of sales and marketing

In addition to the diversity of roles served at Mexicana, Jaan Albrecht gained experience in dealing with trade unions by serving as head of a trade union and head of an airline founded by a trade union (cf. *Glade* 2015, p. 3).

Furthermore, he was the manager of an aviation accident investigation bureau (cf. *Glade* 2015, p. 3).

Moreover, he was well versed with financial turnarounds and accompanying airlines through insolvency due to the experience he gained while serving as CEO at Aeroperu (cf. *Glade* 2015, p. 3). Aeroperu was managed twice by Jaan Albrecht: during the first tenure he accomplished a successful turnaround, upon which he was called by to return to Mexico City where he was employed at Cintra, the owner of Aeroperu (cf. *Glade* 2015, p. 3). In the following years, Jaan Albrecht's successor at Aeroperu was not able to keep the airline in a financially healthy state, which prompted Cintra to assign the task of shutting down Aeroperu within the scope of insolvency proceedings to Jaan Albrecht (cf. *Glade* 2015, p. 3). As a result of the circumstances, under which he managed, restructured and eventually shut down the national carrier of Peru, he was deeply involved in related affairs, not only from a managerial point of view, but also from an emotional point of view (cf. *Glade* 2015, p. 3-4).

Before becoming CEO of Austrian Airlines, Jaan Albrecht was the head of the Star Alliance for 10 years (cf. www.bloomberg.com n.d.).

Given Jaan Albrecht's long-standing career in the aviation industry, the multitude of positions he had, the number of different stakeholders he dealt with and cultural diversity he was exposed to, he was endowed with broad experience, knowledge on feasibility of airline management measures and reluctance towards insolvency (cf. *Glade* 2015, p. 3).

5.2.1.2 Previous CEOs

Prior to Jaan Albrecht, amongst others, Alfred Ötsch, Peter Malanik and Andreas Bierwirth served Austrian Airlines as CEOs (cf. Mara 2015, p. 1). Alfred Ötsch, who served Austrian Airlines between 2006 and 2009 (cf. *www.wien-konkret.at* n.d), had been employed as CFO at Siemens and member of the Austrian Airlines supervisory board prior to his CEO tenure at Austrian Airlines (cf. *Kilan/Fritz* 2006). Peter Malanik and Andreas Bierwith served simultaneously between 2009 and 2011 until eventually Jaan Albrecht was appointed (cf. *www.austrianairlines.ag* n.d.a). Peter Malanik had worked for Austrian Airlines since 1985 in multiple positions, starting his career as professional for international relations (cf. *www.austrianairlines.ag 2009b*, p. 34). Andreas Bierwirth on the other hand started his aviation industry career at Eurowings in 2002 and had no history with Austrian Airlines until hired as CCO in 2008 (cf. *www.austrianairlines.ag* 2009b, p. 34). Nevertheless, until Jaan Albrecht was brought on board in 2011, Austrian Airlines lacked a quorate committee as regards implementation of adequate turnaround measures (cf. *Their* 2015, p. 4).

5.2.1.3 Jaan Albrecht versus Karl Minhard

Karl Minhard, who was the head of the Austrian Airlines cockpit staff work council and a pilot trained on the Boeing 777 was an experienced and long-standing Austrian Airlines employee, who was also known to be rhetorically talented and strong headed (cf. *Glade* 2015, p. 4). Similarly, Jaan Albrecht was experienced in the aviation industry, had worked for multiple companies in multiple positions and thus had – alike Karl Minhard – a clear view on how an Airline is supposed to work (cf. *Glade* 2015, p. 4). Both views, one based on the long-standing history of a traditional airline and the other one based on diversity in served roles and companies, are legit yet full of contradictions and thus potential for conflict (cf. *Glade* 2015, p. 4). These different positions along with the contrary interests both individuals pursued caused severe conflicts between both parties (cf. *Glade* 2015, p. 2)

5.2.2 Managerial Social Capital

5.2.2.1 Discovery of Vienna by further Star Alliance Members

In December 2013, the CEOs of all Star Alliance members were invited to Vienna to a 3-day conference, sponsored by the Vienna International Airport (cf. *Glade* 2015, p. 9). Prior to his tenure at Austrian Airlines, Jaan Albrecht was head of the Star Alliance for eleven years and supported many of the airlines' CEOs in joining or being a member of the Star Alliance (cf. *Glade* 2015, p. 9). Presumably, due to his previous status in the Star Alliance, most invited CEOs accepted the invitation to Vienna (cf. *Glade* 2015, p. 9).

Despite legal challenges regarding law on competition, during the conference, talks were held with other airlines and Vienna International Airport (cf. *Glade* 2015, p. 9). The main legal challenge was given by the circumstance that several airlines in question were potential competitors without any legal agreements with Austrian Airlines (cf. *Glade* 2015, p. 9). For this reason, official talks with other Star Alliance airlines about potentially launching new routes to Vienna were not possible (cf. *Glade* 2015, p. 10). Nevertheless, Jaan Albrecht and Julian Jäger, the CEO of Vienna International Airport, managed to travel to Addis Ababa and Beijing for further talks with Ethiopian Airlines and Air China (cf. *Glade* 2015, p. 10). In 2014, both airlines launch service to Vienna (cf. *www.viennaairport.com* 2014).

New routes served by Star Alliance partners, which are unlikely to be served by Austrian Airlines are beneficial for the network (cf. *Glade* 2015, p. 10). This is especially for the case of Ethiopian Airlines, where it would have been highly unlikely that Austrian Airlines launches service to Addis Ababa (cf. *Glade* 2015, p. 10). Now Austrian Airlines benefits from the infrastructure and the network of Ethiopian Airlines and gained additional market shares: eight of ten passengers on the Addis Ababa – Vienna route, hence utilizing the Austrian Airlines network for connecting to further destinations, haven been drawn off the networks of the Gulf carriers (cf. *Glade* 2015, p. 10).

The Star Alliance conference, arranged by Jaan Albrecht demonstrates how his social capital, built in his previous position, provided aid in sparking up new business for Austrian Airlines.

5.2.3 Managerial Cognition

5.2.3.1 Kickoff of the Transfer to Tyrolean Airways

Jaan Albrecht was the first CEO, who assumed his tasks with the portion of courage required to take necessary measures (cf. *Their* 2015, p. 4). In contrast to his predecessors, he was not biased due to his past career in the company (cf. *Their* 2015, p. 4). In contrast, he knew the specific characteristics of different groups of airline stakeholders, and thus also the way work councils behave when trying to avoid sacrifices (cf. *Their* 2015, p. 5). The impartiality he had as a CEO hired from outside of the Austrian Airlines Group provided him with a clear view on the inevitable course of action required to save the airline from insolvency (cf. *Glade* 2015, p. 3), especially after realizing that the flight personnel's work council was not willing to negotiate (cf. *Their* 2015, p. 5). Eventually, this final insight prompted him to commence transferring flight operations to Tyrolean Airways with no further delay (cf. *Their* 2015, p. 5). The swiftness he exhibited in initiating the process led rivals to call him "brutal" in enforcing turnaround measures (cf. *Their* 2015, p. 5).

5.2.3.2 Management Team Allocation

When Austrian Airlines was acquired by Lufthansa, Wolfgang Mayrhuber, who followed the turnaround philosophy "shrink – restructure – grow" was the active CEO at Lufthansa (cf. *Their* 2015, p. 6). Personnel decisions were made accordingly, which brought Armin Bovensiepen, who was the turnaround and strategy manager at the time Jaan Albrecht took the CEO role, on board (cf. *Their* 2015, p. 6). Thierry Antionori on the other hand, who was a promoter of restructuring via growth and less an advocate for cost savings was supposed to start the role of the strategy manager, but declined in the end (cf. *Their* 2015, p. 6). Once Jaan Albrecht was on board, several managers, amongst others Peter Malanik and Andreas Bierwirth, were laid off (cf. *Their* 2015, p. 6). As opposed to the reputation they had towards the end of their careers at Austrian Airlines, they were successful in implementing the first turnaround step dictated by Mayrhuber, which was the step of shrinking the airline (cf. *Their* 2015, p. 6). Besides the two former top managers, the following positions were reoccupied (cf. *Their* 2015, p. 6):

- Head of Ground Operations
- Head of Human Resources including employees
- Chief pilot

- Head of Marketing and Products

Jaan Albrecht's turnaround team consisted of the currently active CFO, Heinz Lachinger and strategy manager, Armin Bovensiepen, who he deemed fit for the job they had to perform (cf. *Their* 2015, p. 6). Furthermore, after laying off several managers, he reoccupied the vacant positions with (cf. *Their* 2015, p. 6):

- Long-standing Austrian Airlines employees
- Promoted 3rd level managers
- New entries from the labor market

The only employee Jaan Albrecht brought from previous work assignments was the strategy manager Peter Glade, who was the successor of Armin Bovensiepen (cf *Their* 2015, p. 6). Otherwise, as opposed to other managers, Jaan Albrecht did not follow the practice of onboarding people he gained experience with in the past (cf. *Their* 2015, p. 6). He was known to be talented in figuring out quickly, whether interviewees were fit for the assignments he had foreseen them for and whether they would blend in well with the remainder of his team (cf. *Their* 2015, p. 6; Glade 2015, p. 7).

In selecting his team, he sought introduction of counterpoints by implementing a balance between analytical calculators and creative free thinkers (cf. *Glade* 2015, p. 7). This resulted in having the power to think outside of the box, while retaining the capability of figuring out whether the ideas were affordable (cf. *Glade* 2015 p. 7).

5.3 Cognitive Managerial Capabilities

5.3.1 Perception

5.3.1.1 Jaan Albrecht versus Pilots and Public

While Jaan Albrecht was well aware of the criticality of the state Austrian Airlines was in as he took over, the Austrian public and the Austrian Airlines pilots kept believing that they would not be let down in the end, and that an "external solution" would be found, which would not impact their possessions (cf. *Glade* 2015, p. 2). They assumed that Austrian Airlines was sufficiently important to the Austrian economy and would thus not be dropped by the Austrian government (cf. *Glade* 2015, p. 2).

The Austrian government however did not feel responsible for the wellbeing of Austrian Airlines and their employees anymore after the airline had been privatized and in 100% ownership of Lufthansa (cf. *Glade* 2015, p. 2). Also, Lufthansa had alternative plans for exploiting the market in Vienna without using the Austrian Airlines brand in the event of failure of the turnaround measures (cf. *Glade* 2015, p. 2). Accordingly, while Jaan Albrecht understood the urgency of his actions very well, the pilots and their work council did not (cf. *Glade* 2015, p. 2).

5.3.2 Attention

5.3.2.1 The new Business Class

Jaan Albrecht invested in new Business Class equipment for the Austrian Airlines long haul fleet consisting of Boeing 767s and 777 of which the first had been purchased in 1992 (cf. *www.planespotters.net 2017a*). Even though harsh critique had been expressed by the owner Lufthansa (cf. *Glade* 2015, p. 6), Jaan Albrecht demonstrated that he can attend to singular events, while carrying out routine tasks given the singular event is considered reaction to market demand for high yield traffic and the routine task is to restructure the firm, aiming at financial turnaround. By taking this measure, customer satisfaction was improved by 75% (cf. *Glade* 2015, p. 6)

5.3.2.2 The new Mission Statement

Similar in paradoxicality to the new Business Class initiative, yet less costly, Jaan Albrecht introduced a new mission statement while Austrian Airlines was in its critical state (cf. *Glade* 2015, p. 12). At the same time Jaan Albrecht's core team was busy with elaborating plans to lay off employees in Innsbruck upon closing the headquarters of Tyrolean Airways, they were assigned the task to come up with eleven sentences stating how cherishing behavior shall be spread within the organization in dealing with each other (cf. *Glade* 2015, p. 12). Despite considerations of doubt, whether timing was right for working out a new mission statement, Jaan Albrecht was confident that his timing and his dedication to this task would set the expectations for the turnaround activities correctly (cf. *Glade* 2015, p. 12). In the end, it was perceived as important step in adapting the core team's mindset to the consideration that the turnaround activities were, despite their harshness, transparent, fair, honest and according to the values they had agreed upon (cf. *Glade* 2015, p. 12).

5.3.3 Problem Solving and Reasoning

5.3.3.1 Financial Turnaround

Work within the flight crew collective contracts focus group revealed that previous commitments including cancellation of pensions and 20% pay cuts were no longer sufficient given the negative 2011 financial forecast and that additional commitments towards financial turnaround would need to be given by the flight crews (cf. *Mara* 2015, p. 1). The focus group identified the problem that negotiation with the responsible work council is likely to remain unsuccessful and thus the idea to redesign flight operations was born (cf. *Mara* 2015, p. 1). Potential solutions included (cf. *Mara* 2015, p. 1):

- Transferring flight operations to a newly founded firm in Switzerland, in which the Austrian collective contracts have no effect
- Converting Austrian Airlines to a holding with subsidiaries for short-, medium- and long-haul flight operations and, if necessary, allow unprofitable subsidiaries to enter bankruptcy
- Transferring Austrian Airlines' flight crews' collective contracts to the more efficient scheme of Tyrolean Airways, which means that the Tyrolean Airways contract supersedes the Austrian Airlines contract

Traces of both, automatic mental processing as well as controlled mental processing are detectable in the period Jaan Albrecht ran Austrian Airlines as CEO. While structured and analytical processes have led to cost cutting and contract renegotiation initiatives, employees reporting directly to Jaan Albrecht were encouraged not to ask for permission to implement ideas, but rather to ask for forgiveness in the event of failure. This duality in approaching the capabilities of problem solving and reasoning reflects a balance between controlled and automatic mental processing.

5.3.3.2 Relations to Vienna International Airport

In the past centuries, in which Austrian Airlines and the Vienna International Airport were forced to collaborate, both parties met each in hostility most of the time (cf. *Glade* 2015, p. 5). Communication between both parties was frequently held in court and thus each party was used to interacting with the other under a substantial deal of malignance (cf. *Glade* 2015, p. 5). Subject of several disputes included (cf. *Glade* 2015, p. 9):

- Consumer behavior of the passengers during their stay at the airport – the airport is interested in keeping passengers for long durations to increase their consumption
- Supported transit times – airlines on the other hand are interested in transporting their passengers as quickly as possible
- Level of airport security – for the airport, security is a matter of expense and thus an item with potential for savings, while airlines are interested in high levels of quality
- Terminal utilization – while airports are interested in having reputable airlines using large aircraft in their new terminals, legacy network carriers are interested in utilizing new terminals exclusively
- Handling fees – airlines are interested in keeping them low, while airports consider them their main source of revenue
- Political history – both, the ÖIAG and Vienna International Airport used to be under the influence of the conservative and socialist parties in Austria. The change of ownership of Austrian Airlines is assumed to be a source of behind-the-scenes potential for conflict.

Due to the fact that the Vienna International Airport is Austrian Airlines' most important partner, Jaan Albrecht – in his attempt to receive commitment to his austerity plans from each stakeholder – approached the newly appointed board members, Julian Jäger and Günther Ofner (cf. *Glade* 2015, p. 5). As a result of the constellation that all three negotiation peers were new in their current positions, inherited burdens were not an issue (cf. *Glade* 2015, p. 5). Jäger and Ofner clearly understood the impact insolvency of Austrian Airlines would have on the airport, for after the demise of Swissair, it took Zurich Airport ten years to reach the numbers of passengers they had before Swissair went out of business (cf. *Thier* 2015, p. 2). Jaan Albrecht was clear and transparent in his demand to receive support from the airport in implementing his turnaround plans, by flagging up two options (cf. *Glade* 2015, p. 5). The first option was to continue fighting (cf. *Glade* 2015, p. 5) and to risk losing the most important customer, which accounted for 50% of the passengers (cf. *Their* 2015, p. 2). After overcoming initial skepticism, which was achieved by viewing Jaan Albrecht's figures, Jäger and Ofner decided to choose the second option, which was to substantially help Austrian Airlines cut its costs (cf. *Glade* 2015, p. 5). This interaction was the begin of a new fruitful era of cooperation between Austrian Airlines and Vienna International Airport, which continued in bringing two new airlines: Ethiopian Airlines and Air China (cf. *Glade* 2015, p. 5).

5.3.4 Language, Communication and Social Cognition

5.3.4.1 Transferal of Flight Operations to Tyrolean Airways

The urgency of the turnaround activities, which had been launched in 2011 towards the end of Peter Malanik's and Andreas Bierwirth's era (cf. *Mara* 2015, p. 1) was given by the imminent threat of bankruptcy (cf. *Glade* 2015, p. 1; *Their* 2015, p. 1). By the time Jaan Albrecht started his CEO tenure at Austrian Airlines, there were no alternatives to transferring the Austrian Airlines flight crew collective contracts to Tyrolean Airways besides leading the organization through insolvency proceedings (cf. *Glade* 2015, p. 1).

5.3.4.2 Renegotiation of Existing External Stakeholder Contracts

Upon Jaan Albrecht's entry, each external stakeholder was asked for a contribution to the austerity plans, which were designed to support turnaround (cf. *Their* 2015, p. 1). Thereby small suppliers, such as copy paper vendors were considered as well as the big ones providing air traffic services, kerosene and catering (cf. *Their* 2015, p. 1). Consequently, all contracts were renegotiated (cf. *Glade* 2015, p. 5).

In addition, airport, politics and personnel unclosing ground and flight staff were asked for contributions as the austerity plans and the critical state of the organization were announced publicly in 2012 (cf. *Their* 2015, p. 1). Thereby, Jaan Albrecht communicated clearly without disguising the circumstance that without austerity, Austrian Airlines would cease to exist within a short period of time (cf. *Their* 2015, p. 1).

In communicating the urgency of the stakeholders' contributions, Jaan Albrecht followed a predefined pattern. At first, he worked out a turnaround plan in close collaboration with the board members and the managers, which report to him (cf. *Their* 2015, p. 1). Next the plan was reviewed for approval by the members of the supervisory board before being presented to the addressed stakeholders (cf. *Their* 2015, p. 1). The first stakeholders, who were approached in face-to-face sessions, were the Austrian ministers of social affairs, economy and finance (cf. *Their* 2015, p. 1). Thereafter, meetings were arranged with the board members of Vienna International Airport, Julian Jäger and Günther Ofner, with the Austrian air navigation services provider, Austrocontrol, with representatives of local politics and finally with suppliers, such as Attila Dogodan, who supply catering for Austrian Airlines (cf. *Glade* 2015, p. 1). Each stakeholder was confronted with the brutal truth concerning Austrian Airlines' forecast and the respective consequences in case the airline ceased to exist (cf. *Their* 2015, p. 1).

5.3.4.3 Communication of Strategic Change in pre-Albrecht Eras

Despite Jaan Albrecht's transparent and honest means of communication, the Austrian Airlines flight crew's work council was not willing to support his austerity plans (cf. *Their* 2015, p. 2). This is assumed to be a result of previous misleading attempts to gain buy-in among the involved flight staff (cf. *Their* 2015, p. 2). During the era of Alfred Ötsch, the work council signed a new collective contract, which was called "growth collective contract" (cf. *Their* 2015, p. 3). The stipulations of the contract implied growth of Austrian Airlines following successful restructuring measures (cf. *Their* 2015, p. 3). In reality however, instead of growth, the employees faced occurrences of downsizing, which ruined their faith and commitment towards board decisions and related corporate communication (cf. *Their* 2015, p. 3). Accordingly, Jaan Albrecht failed in restoring faith, which had been destroyed by Alfred Ötsch (cf. *Their* 2015, p. 3) and further neglected by Andreas Bierwirth and Peter Malanik. The flight crew work council was aware that personnel cost optimization was included in Jaan Albrecht's austerity plans, and thus willingness to cooperate was declined from the beginning (cf. *Their* 2015, p. 3). Instead, senior management and the Austrian Airlines flight crew work council were in dispute for nearly two years (cf. *Their* 2015, p. 3). This dispute, which, despite the fact that it was only one part of the turnaround plan, was intensively followed by public media, and eventually ended in supreme court (cf. *Their* 2015, p. 3)

5.3.5 Social Cognition

5.3.5.1 Personnel Turnover in Periods of Change

Several managers at Austrian Airlines were unaware of the seriousness of the situation the airline was in as Jaan Albrecht was nominated as CEO (cf. *Glade* 2015, p. 5). Accordingly, they were not willing to contribute to the measures necessary for the turnaround (cf. *Glade* 2015, p. 5). Consequently, management was reduced by a third and half of the remaining staff was replaced (cf. *Glade* 2015, p. 5). During this personnel turnover, which also prompted the former CEOs Andreas Bierwirth and Peter Malanik to leave, change was pursued on other employee levels as well (cf. *Glade* 2015, p. 5). Long-serving employees, who were expected to bring new and creative insights, were promoted and given key roles (cf. *Glade* 2015, p. 5). As an example, in this period, the deputy head of Human Resources became the Chief Information Officer and the head of the IT department became the head of Human Resources (cf. *Glade* 2015, p. 5). Examples like these demonstrate that in the era of Jaan Albrecht, key posi-

tions were staffed and talents were promoted aside of the classical Austrian Airlines hiring schemes (cf. *Glade* 2015, p. 5).

5.3.5.2 Jaan Albrecht's Failure friendly Management Culture

Under the lead of Jaan Albrecht, managers were entitled develop their own ideas, implement them and subsequently seek feedback (cf. *Glade* 2015, p. 7). In the event of failures, feedback was provided on how the failure could have been foreseen beforehand (cf. *Glade* 2015, p. 7). Managers were not only allowed, but also encouraged to work independently and to make their own decisions within a certain defined scope (cf. *Glade* 2015, p. 7). The slogan was "rather ask for forgiveness afterwards than for permission beforehand" (cf. *Glade* 2015, p. 7).

6 Discussion

6.1 Dynamic Capabilities

6.1.1 Sensing

Several ideas regarding the turnaround of Austrian Airlines were successfully implemented by Jaan Albrecht. He managed to reduce cost by renegotiating existing contracts with external stakeholders, by increasing fleet commonality, hence reducing staff and maintenance costs and by transferring Austrian Airlines' flight operations to the more efficient Tyrolean Airways collective contracts. While Jaan Albrecht undoubtedly achieved results partially by sensing opportunities, he was the beneficiary of the availability of a pool of collective knowledge which exists within the organization. In addition, the fact that Vagn Sörensen realized savings potential in reducing the types of aircraft in the fleet during his tenure, which lasted until 2006, delivers evidence that the dynamic capability of sensing appropriate opportunities was in the organization for a long time. Due to the ownership strictures, this dynamic capability could not further into sensing until Jaan Albrecht arrived.

6.2 Seizing

In many aspects reflected by this case study, the Dynamic Capability of seizing was enabled through the change of ownership, which makes it difficult to verify the seizing capabilities of the organization at given times. As an example, the opportunity of the transfer of flight operations to Tyrolean Airways was an opportunity that was waiting to be seized until the organization was privately owned.

6.3 Reconfiguration

The case study demonstrates that the topic of post-merger reconfiguration is non-trivial. On the one hand, Teece (2007) recommends decentralization and cospecialization, which would have advocated for keeping Lauda Air, Tyrolean Airways and Austrian Airlines separate to a certain degree. On the other hand, the full abolishment of Lauda Air and the transfer of Austrian Airlines's flight operations to Tyrolean Airways were milestones along a successful development path. Indeed, Lauda Air's strengths were given by their leisure flight competency, their efficient processes and their modern appearance. The main strengths of Tyrolean Air-

ways were their cost efficiency and their passenger satisfaction records in late 1990s. The strengths of Austrian Airlines were given mainly by their long-standing tradition. They had sufficient staffing for each organizational challenge the faced. Cospecializing would have been an option due to the diversity of the involved companies. Due to cost however, the Austrian Airlines group was forced to consolidate and thereby sacrifice cospecialization and decentralization potential. In this case, the common units across the involved companies were too similar – keeping them separate and thereby consciously accepting redundant personnel was deemed to less of an advantage to justify the additional cost.

6.3.1 Handling Inertia and Resistance

The specific relevance of handling resistance and inertia as additions to Dynamic Capabilities is motivated not only by observing past examples of ungentle transactions. Recent developments observed in the Lufthansa group react to increasing competition by the Low Cost Carriers Ryanair, Easyjet and Air Berlin within Europe (cf. *www.dlr.de* 2016, p. 10). This has prompted Lufthansa to convert Eurowings, one of its former regional carriers to a low cost brand and to shift operations from the Lufthansa main line to Eurowings (cf. *Koenen* 2015). This step along with other cost cutting measures, such as premature retirements has caused numerous strikes by cockpit and cabin crew (cf. *www.aerointernational.de* 2015).

6.4 Dynamic Managerial Capabilities

6.4.1 Managerial Human Capital

The diversity of cost structures and business models common to the airline industry provides a wide variety of parameters, which can be tuned to run an airline efficiently and with profit in a highly competitive environment. If considered in combination with the hypothesis that sole privatization does not improve cost efficiency (cf. *Cuervo/Villalonga* 2000, P. 585), change of management post privatization to an outsider CEO is highly recommended. The Austrian Airlines case confirms the hypothesis: the financial turnaround was achieved by Jaan Albrecht, the first outsider CEO to be appointed post privatization, even though Andreas Bierwirth and Peter Malanik, who were active previously, had initiated several necessary restructuring work packages.

Statements made in the interviews revealing that several ideas implemented by Jaan Albrecht were not new indicates benefit of organizational learning on the one hand and provides evi-

dence for the relevance of ownership structures on the other. In addition, it points out that impartiality and thus a clearer view on potentially painful yet necessary measures is more likely if the CEO is not involved in the organization's history.

6.4.2 Managerial Cognition

The boldness with which Jaan Albrecht managed to initiate the transfer of flight operations to Tyrolean Airways was helpful in creating a change of mindset within the Austrian Airlines flight staff work council. While they refused to see the urgency and importance of harsh turn-around measures, Jaan Albrecht achieved to relay a view of the present and future that reflects its criticality.

6.5 Ownership Impact on Managerial Decisions

The finding that plans for restructuring Austrian Airlines had been available long before the actual steps were eventually implemented raises the question, why they were not implemented at the time the corresponding ideas were born. Several managers were found not to be sufficiently courageous or sufficiently enabled to perform steps, which would have been necessary to achieve sustainable improvements in firm performance. Consequently, collective organizational knowledge may be available as a result of historical data and experience collection, yet not properly evolvable into turnaround measures due to lasting limiting factors, such as political or shareholder interests, which deviate from the overall aim of good financial performance and maintenance of sustainable competitive advantage. In other words, if the question of ownership is neglected in viewing an organization's capability to sustain in rapidly changing environments, the manager may run into a situation, where the knowledge how to proceed may be accessed, yet the power to actually use it may not. Accordingly, the usefulness of dynamic capabilities should be viewed in context of the organization's ownership structure and corresponding shareholder interests.

6.6 Mergers and Acquisitions

The hypothesis that resistance towards post-merger integration between similarly operating firms is far worse than between companies, which are endowed with less commonalities, was tested positively. Accordingly, within the Austrian M&A acquisitions in the should be made only

6.7 Managerial Cognitive Capabilities

The managerial capabilities language, communication and social cognition did not only turn out to underpin the dynamic capability of reconfiguration, but also of opportunity seizing. If Jaan Albrecht, who excelled his predecessors in negotiating with the airport, had not been aligned with the idea of creating synergies with external stakeholders instead of simply demanding discount, the deals with the airport and Do&Co would have possibly failed, which would have endangered necessary austerity. Besides establishing and cultivating cooperative relationships with external stakeholders, a key contributor to the persuasive power his communication had was the unambiguity, clarity and transparency of his messages, which were geared at establishing understanding of external stakeholders for the seriousness of imminent insolvency. Jaan Albrecht managed to get this message across, which – for the most - prompted his counterparts to understand that insolvency of Austrian Airlines would bring them substantial loss as well. Accordingly, cooperation in interaction paired with clarity in communication appears to be a valuable asset attributed to individual managers.

6.8 Attention and Perception

As discussed previously dynamizing organizational capabilities as demanded by Helfat and Peteraf (2003) to address the dynamics of rapidly changing markets poses a risk of jeopardizing the essence of the capabilities (cf. *Schreyögg/Kliesch-Eberl* 2007, p. 914).For this specific reason, organizations which are required to change, need to be ambidextrous (cf. *Tushman/O'Reilly* 1996, p. 11f). In the discussed case of the turnaround auf Austrian Airlines, his hypothesis is confirmed. Despite harsh critique from Lufthansa, the new owner of Austrian Airlines, Jaan Albrecht made investments in Austrian Airlines' fleet while being fully committed to the organization's turnaround (cf. *Glade* 2015, p. 6), which requires a substantial amount of austerity. For instance, the Business Class of the long-haul aircraft was upgraded with state-of-the-art interior (cf. *Glade* 2015, p. 6). If Jaan Albrecht had not made this investment, one could speculate loss of high yield passengers to other alliance partners or even to the competition. As a consequence, Austrian Airlines would have had lower costs but also less revenue. This specific situation supports the recommendation that airlines, especially if currently undergoing a turnaround, should be ambidextrous.

6.9 New Findings

6.9.1 Inheritance of Credibility

Growth plans were forecasted and communicated to the employees under the lead of Alfred Ötsch, which was amongst others promoted by means of drafting new collective contracts labelled "growth collective contract" (cf. *Their* 2015, p. 3). Instead of growth, the airline was downsized by selling long-haul aircraft, discontinuing service to specific long-haul destinations and laying off employees (cf. *www.wienerzeitung.at* 2006). This broken promise led to disbelief of the employees of Jaan Albrecht's reorganization plans, even though Jaan Albrecht was not involved in Alfred Ötsch's activities. The sole circumstance that a related promise had been broken in the past resulted in organizational learning that growth plans following austerity measures cannot be taken seriously.

6.9.2 Resilience

Jaan Albrecht is a manager, who is endowed with a high level of versatility in professional experience in the airline industry (cf. *Glade* 2015, p. 3-4). Before starting his tenure as a CEO at Austrian Airlines, he held a multitude of different positions starting his aviation career as a pilot for Mexicana and ending up as the manager of the Star Alliance (cf. www.bloomberg.com n.d.). In-between he served the former Peruvian national carrier Aeroperu twice, once to successfully turnaround the organization and once to shut it down after the successor of his first tenure ran it down (cf. *Glade* 2015, p. 3-4). The entire process entailed a substantial deal of drama: Jaan Albrecht was accused of cultivating connections to the mafia (cf. *Glade* 2015, p. 3-4). Consequently, for a period of one and a half years, he was forced to live in a hotel room without having the option to see his wife or his kids as the entire family was facing death threats (cf. *Glade* 2015, p. 3-4). Accordingly, Karl Minhard's threats to publish newspaper articles, which may not necessarily be in Jaan Albrecht's favour, appear to have a limited threatening impact on him due to the resiliency he built up by experiencing far worse situations, amongst which was the worst case scenario for Austrian Airlines, namely insolvency of a national carrier (cf. *Glade* 2015, p. 3-4).

7 Limitations and Further Research Areas

7.1 Selection of Theoretical Models for Dynamic Capabilities

The cases analysed within the scope of this thesis are viewed amongst others against theoretical models, which constitute novelties emerging from recent strategic management research. The degree of attention payed to research in dynamic capabilities and the associated diversity among the numerous definitions necessitate concentration on selected dynamic capabilities and neglect of others when viewing the case discussed in this thesis. The necessity to merely consider a fraction of the entire dynamic capabilities framework carries the risk of disregarding potentially relevant theory.

7.2 Ambiguities in Definition of Strategic Change

In addition, literature-extracted findings used in this thesis are based on definitions ambiguously used throughout the respective sources. As an example, Zhang and Rajagopalan (2010) identify different definitions of ‘strategic change’ throughout the sources cited in their study. Examples range from single changes in specific strategic dimensions to changes in patterns of resource allocation (cf. *Zhang/Rajagopalan* 2010, p. 335). The definition chosen to restrain the scope of their study is ‘the variation over time in a firm’s pattern of resource allocation in key strategic dimensions that goes beyond industry-wide changes in these dimensions’. Other definitions for ‘strategic change’ including changes in diversification or R&D are not considered in the study (cf. *Zhang/Rajagopalan* 2010, p. 335). This level of ambiguity leads to partial and conditional views on surveyed subject matter, therefore disregarding remaining aspects.

7.3 Human Performance

While aspects regarding emergence and handling of employee resistance are discussed, the psychological and neurological effects of stress and anxiety on human performance are neglected. This could by subject to further research.

8 Conclusion

The finding the Greek philosopher Heraclitus of Ephesus has made in the first century before Christ (cf. *http://en.wikiquote.org* 2017) fully applies to the airline industry: the only constant is change. In addition to the multitudes of types of airlines fighting for market shares and environmental variables, which substantially contribute to success or failure, numerous organization-internal factors can lead to sustainable success if managed properly or to failure if managed negligently. Examples of both cases can be found in aviation history as well as in the presence. In 1978 when the deregulation act was passed in the United States of America, both, American Airlines and PanAm had business models, which were sufficient for the era of industry regulation (cf. *Ben-Yosef* 2005, p. 32). American Airlines, which had aging fleets of Boeing 707s and 727-100s, had the highest operating costs among the major US airlines (cf. *Ben-Yosef* 2005, p. 32). Therefore, in this respect, the outlook – if American Airlines had not changed its strategy from point to point services to a fortified hub and spoke system – was negative (cf. *Ben-Yosef* 2005, p. 31-32). Nevertheless, American Airlines was the airline that survived to date while the iconic pioneer of American aviation, PanAm, was forced to end gracing the international skies as a result of failure to adapt to the deregulated market (cf. *Ben-Yosef* 2005, p. 15). Similarly, Austrian Airlines, a traditional legacy airline which existed in times characterized by irrelevance of operative costs has managed to reach the profit zone while fighting competition with LCCs and Gulf carriers. These matching patterns shall encourage airlines to continue fighting for their market shares, regardless of how hopeless the outlook may be. By implementing dynamic capabilities and extending the model, as done by this case study, airlines can act in the sense of remaining adaptable to changing environmental conditions and changing their business models to reflect their altered environment. With the new dynamic capabilities defined in this thesis, airlines can closely monitor and invest effort in changing their stakeholder structures on the one hand, on the other they can implement enhanced decision power quickly by finding the appropriate managers.

Therefore, airlines are advised to embed constant change in their organizations, which is why the Dynamic Capabilities framework is seen as viable basis for reviewing business models and practices. While the Sensing, Seizing, Reconfiguring framework set up by Teece (2007) served as a starting point in this case study, further dynamic capabilities were deemed necessary.

Thereby, selection of personnel, especially board members and senior managers should play a vital role. As hypothesized in theory and successfully verified in the empirical study, organizational performance is substantially dependent on managerial capabilities, which are highly individual and amongst others based on the managers' past experience and beliefs. Therefore, managers should be selected according to the imminent tasks they are supposed to accomplish, while the knowledge about the tasks itself can be retrieved from the organization's collective wisdom about the industry, the current situation and future perspectives. According to the case study performed here, it is recommended to extend the Dynamic Capabilities framework by the microfoundation "Management Selection", whereas, if added to the Sensing, Seizing and Reconfiguration model of Teece, it could be argued that this microfoundation is difficult to assign to a specific capability. Appropriate management structures are important for both, sensing the correct opportunities and taking the right steps in integrating acquired companies as well as for anything in between those points.

CEO Jaan Albrecht has demonstrated use of the cognitive managerial capabilities of perception and attention. Investing in a new business class while the overall corporate focus was on financial turnaround is a trace for the ability to attend to market impulses while completing long term programmes, especially considering the resistance from the owner, which came along with it. The specific environmental situation Austrian Airlines is exposed to, which is characterized by alliance-internal competition from Lufthansa, Swiss and Turkish Airlines as well as external competition from the ME3 airlines has created a market impulse Austrian Airlines was well advised to react to. The age of the long haul fleet added temporal urgency to the requirement. In comparison with the competitors, the previous business class interior was outdated and thus considered due for replacement prior to completion of the financial turnaround despite presence of strong corporate-internal resistance. Accordingly, this step may additionally be interpreted as a trace of industry experience-induced proceeding, hence supporting research stating that prior industry knowledge underpins the dynamic capability of sensing opportunities.

The balance between controlled and automatic mental processing approaches to reasoning and problem solving has shown that both can coexist and that coexistence of both schemes can add value by facilitating structured and reflected proceedings on the one hand and considering promptly emerging creativity and novelty where useful on the other.

The practicality of implementing a dynamic capability approach is also given by the large number of cost drivers the airline industry is affected by. Given the parameter of political in-

fluence alone, airlines' situations become difficult to compare. The factors, which cannot be influenced by management, need to be compensated by measures taken in areas, which can be influenced by the airline. Therefore, establishment and maintenance of competitiveness is a highly creative task, which is challenged by the fact that each airline, even though partially competing on a global basis, is embedded in an own unique environment it needs to deal with on an individual base.

Organizations, which excel in providing the wrong services, are set up for failure (cf. *Augier/Teece* 2009, p. 411). This finding combined with the multitude of different types of airlines on the market and complexity of airlines' cost structures supports considerations emphasizing relevance of dynamic capabilities in managing airlines. Managers of airlines are advised to remain constantly aware of changes, which may make their products redundant.

The capability of organizational learning is a relevant asset, yet trumped by ownership structures. The partial state-ownership inhibited necessary turnaround activities, which could only be accomplished by pursuit of financial objectives rather than political objectives. Therefore, in addition to extending the world of dynamic capabilities by creation of appropriate management structures, it is recommended to consider shaping and influence of ownership structures as a dynamic capability.

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Annexes

Annex A: Interview Guideline

Opening Question:

This interview aims at reflecting the period of fully integrating Tyrolean Airways operations into Austrian Airlines. Whereas the acquisition was made in 1998, this thesis focuses on the full strategic and organisational integration executed by CEO Jaan Albrecht in the years 2011 – 2015. In 2012, the infamous cost-efficient personnel structure of Tyrolean Airways has been deployed to the Austrian Airlines operations. Now that the new Tyrolean Airways inspired collective contracts are in place and the fleet has been harmonized, profits have been realized in three consecutive years. From a strategic point of view, how did you experience Austrian's path to sustainable success?