



# Strategic reorientation and business turnaround: the case of global legacy airlines

Strategic  
reorientation

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## Abstract

**Purpose** – This paper aims to illustrate how legacy airlines can reorientate to achieve sharp recoveries in performance following prolonged periods of stagnation, decline and eroding competitiveness.

**Design/methodology/approach** – The authors use a qualitative analysis of five longitudinal case studies of legacy airlines that embarked on strategic change between 1997 and 2006. Data collection spanned ten years and included archival data, public documents, news clippings, accounts in specialist books and internal company documentation.

**Findings** – The paper identifies two distinct approaches for reorientation in the legacy airline industry. Companies that have fallen behind and are in risk of failure focus on regaining customer trust and loyalty, and restructuring route networks, business processes and costs in an “improvement and innovation” reorienting approach. Underperforming airlines, for whom growth has declined in traditional markets and who note that opportunities exist elsewhere, focus on product and service development and geographical growth in an “extension and expansion” reorienting approach.

**Practical implications** – The paper develops a framework for successful reorientation in the legacy airline industry. This framework encourages executives to focus on and leverage profit maximization, quality, leadership, alliance networks, regional consolidation and staff development during periods of strategy formulation and reorientation.

**Originality/value** – This research addresses the dearth of understanding and attention afforded to the concept of reorientation in the literature on strategic turnaround. The research also serves to emphasize the presence and importance of reorientation as a strategy of change within the legacy airline industry. Furthermore, in demonstrating how this strategy can be implemented in a sharp-bending or performance improvement context, this study illustrates how reorientation is intertwined with the broader turnaround process.

**Keywords** Decline, Strategic reorientation, Turnarounds, Strategic change, Legacy airlines

**Paper type** Research paper

## Introduction

Strategic reorientation is a managerial response to eroding market competitiveness. As a discipline, strategic management has offered a variety of theoretical routes to meet the challenge of organizational turnaround (Mahoney and Pandian, 1992). Turnaround scholars define reorientation as the ability of firms to adapt to the changing environment, representing a fundamental adjustment in a firm's value proposition (Hoskinsson and Johnson, 1992; McKinley, 1993; Barker and Duhaime, 1997; Barker and Barr, 2002).



However, reorientation from a turnaround perspective requires more attention and further research (Barker and Mone, 1994). One of the more intriguing and unsolved puzzles in turnaround theory is this: how do legacy airlines reorientate themselves in the turnaround process? In aggregate, this paper contributes to the literature on strategic turnaround by developing a better understanding of how turnaround can be managed effectively in the context of sharp recoveries in company performance within the legacy airline sector. We will draw on organizational decline, strategic reorientation and strategic change literatures to build a conceptual model to understand how legacy airlines manage their turnaround process when faced with declining profits.

In focusing only on legacy airlines we are emphasizing those companies that emerged in the pre-deregulation era and that traditionally offered a higher level of service and had more extensive cost commitments than low fare airlines (LFAs). These include companies like American Airlines, Air France, Alitalia and United Airlines. Most legacy airlines on both sides of the Atlantic have had to seek new market positions as markets deregulated in Europe and the USA over the past three decades. Many of these companies began as state-owned enterprises with entrenched monopolistic route rights. Today the industry looks radically different. Prominent legacy carriers such as PanAm, Swissair and TWA no longer exist, Alitalia and Olympic teeter on the verge of collapse, and Air France has merged with KLM. Some, such as Aer Lingus, re-invented themselves as a quasi low cost carrier. Market deregulation, the privatization of state-owned carriers and the onslaught of new competitors, especially in the form of LFAs, have caused the former flag carriers to rethink their business models.

Most recent airline industry success stories have tended to involve start-up LFAs rather than legacy carriers. The nimble, ultra-lean business models of the LFAs often make the legacy carriers look cumbersome, anachronistic and financially unappealing. Such industry developments raise legitimate questions for company executives and academics that share a common concern for overcoming the strategic challenges encountered in practice (Schultz and Hatch, 2005; Hoffman, 2004). More specifically, how can traditional industry stalwarts who have for years relied on organic growth alone *reorientate* themselves, not only to survive but to once again be forerunners in a vastly more crowded market in which the customary value propositions have been contested? In this paper we set out to answer these questions and show case reorientation strategies by identifying a number of such companies that have turned around from disappointing financial performance to consistent financial growth and in doing so have managed to remain powerful in more liberalized markets. Our results show that two distinct repositioning approaches are evident in practice. The first focuses on improvement and innovation and the second emphasizes extension and expansion. Companies that have fallen behind and are in risk of failure favor the first. A reinvigorated – if not reinvented – corporate strategy and organizational structure is necessary, focused on regaining customer trust and loyalty and restructuring route networks, business processes and costs. Underperforming airlines, where growth had declined in traditional markets and opportunities exist elsewhere, pursue the second reorientation type, emphasizing product and service extension and geographical expansion.

The structure of this paper commences with an overview of the literature relating to organizational decline, turnaround and strategic reorientation. Following an outline of

the methodology employed, the concept of reorientation is discussed through an examination of select airline strategies during the 1996 to 2007 period. Finally, following a discussion of the findings, we derive a framework for successful reorientation and provide resultant implications for theory and practice.

## Theoretical background

### *Strategic change*

The characterization and need for organizational changes that are distinctly radical and strategic in nature have been well documented in the literature. Mintzberg (1978), for example, refers to strategic change as a set of activities influenced by environmental changes that affect an organizations culture, technology, structure and product-market focus. A significant theoretical contribution to our understanding of how organization's change was provided by Tushman and Romanelli's (1985) description of punctuated equilibrium. This theory suggests that relatively long periods of incremental change or evolutionary convergence are occasionally punctuated by revolutionary change, reorientations or frame breaking forces should the levels of stability between strategy, structure and processes be high. Elsewhere, Nadler and Tushman (1990) characterize how organizational change can (among other types) take the form of re-orientations and re-creations; Grundy (1993) refers to "discontinuous change" which is marked by rapid shifts in strategy, structure or culture, or all three; and Dunphy and Stace (1993) propose a model for change which include modular and corporate transformations, depending at what level the frame breaking change occurs. Moreover in their reference to archetype theory, Greenwood and Hinings (1993) explain how a company's archetype, defined as a set of structures and systems that reflects a single interpretive scheme, can be altered to a new form once subjected to strategic or radical change.

The importance of such forms of strategic change in enabling companies to survive and adapt in turbulent environments has also been acknowledged in the field of strategy (Hamel and Prahalad, 1994; McGahan and Mitchell, 2003). These changes in terms of their ability to radically overhaul a company's strategy have been discussed in detail and take on many guises including reorientation (Dodourva, 2003; Turner, 2003; Ryan *et al.*, 2007), strategic fit (Venkatraman and Camillus, 1984), rejuvenation (Stopford and Baden-Fuller, 1990), strategic competition (Porter, 1996), strategic innovation (Markides, 1997), responding to dynamic environments (Eisenhardt and Browne, 1999) and strategic renewal (Agarwal and Helfat, 2009). Another form of strategic change, and one that we are particularly concerned with in this study, is that of company turnaround following periods of severe decline (Schendel and Patton, 1976, Bibeault, 1982; Barker and Duhaime, 1997).

## Company turnaround

### *Decline*

Early and eminent contributors to the field of turnaround argued that downturns came about as a result of unfavorable environmental shifts combined with organizational inefficiency or inappropriate competitive strategies (Schendel and Patton, 1976). This view that the roots of firm decline and possible failure can be traced to industry contraction or firm specific problems received significant support in the broader management literature (Whetten, 1987; Cameron *et al.*, 1988; Hambrick and D'Aveni,

1988; McKinley, 1993). In clarifying this categorization further Wilson (1980) described two forms of decline, namely “k-type” and “r-type”. The former stems from industry decline, when organizations have exhausted their environmental resources or other organizations have begun competing for limited resources. Typical contributors to such forms of decline include severe market share erosion (Starbuck *et al.*, 1978); a shrinking market (Harrigan, 1980); and shrinking financial resources (Cameron, 1983). The latter is more internally induced and occurs when a company does not fulfill its potential and becomes uncompetitive due to strategic misalignment with its environment. Altman’s (1983, p. 40) statement that “the overwhelming cause of individual firm failures is some type of managerial incompetence” is consistent with this form of decline. Moreover, Nystrom and Starbuck (1984) explain how strategic misalignment can see a company falling out of sync with its environment, often as a result of top management decisions to undertake ill-advised expansion, or their failure to update product lines, overcome functional weaknesses and curtail operating expenses.

#### *Turnaround*

Barker and Duhaime (1997, p. 18) suggest that turnaround occurs “when a firm undergoes a survival threatening performance decline over a period of years but is able to reverse the performance decline, end the threat to firm survival and achieve sustained profitability”. It is generally acknowledged in the literature that the turnaround process consists of two overlapping and broad stages, namely decline stemming strategies and recovery (Robbins and Pearce, 1992; Arogyaswamy *et al.*, 1995). A key debate in the literature surrounds the role and influence of causation on subsequent turnaround responses. Robbins and Pearce (1992), for example, argued that retrenchment (e.g. cutting costs or asset reduction) was a critical first stage for a successful turnaround strategy and could even be employed as the grand or dominant strategy in the turnaround process. This view supported O’Neill’s (1986) earlier assertions that recovery could be achieved through efficiency and retrenchment moves and did not strictly require growth strategies. Similarly Hambrick and Schecter (1983) validated the use of operating/efficiency strategies over entrepreneurial initiatives given their ability to produce the most dramatic results, and to serve as indicators of intent to management and stakeholders.

Barker and Mone (1994) challenged the view that retrenchment was a prerequisite for turnaround and argued that strategic change was essential for recovery, as retrenchment could miss the strategic core of the problems. There is significant support in the literature for the adoption of more strategic and entrepreneurial responses (product-market scope alterations, diversification and repositioning, and so forth), particularly when the company’s strategic position is weak (Grinyer and Spender, 1979; Hofer, 1980; Hoffman, 1989; Barker and Barr, 2002). Schendel *et al.* (1976), for example, argued that while a substantial amount of declines were due to efficiency reasons, turnarounds were often found to be associated with strategic moves and share increasing strategies. Furthermore, in specifically examining the role of strategic change in company turnarounds, Barker and Duhaime (1997) found that company turnarounds had a greater need for strategic change in growing industries and when there were severe declines. Companies had a greater capacity for strategic change when CEOs were replaced, when slack resources were available, and in larger more diversified organizations. The likelihood that companies will adopt such strategic

responses is hindered to a certain extent by the threat rigidity effect (Staw *et al.*, 1981) and mechanistic shifts (Barker and Mone, 1998) that are frequently associated with decline and turnaround situations (Starbuck *et al.*, 1978; Cameron *et al.*, 1987; Slatter, 1984). These reactions can often result in companies centralizing decisions and becoming dependent on formalized and overly standardized operating procedures that have proved effective in the past. Barker and Mone (1998), for example, found that mechanistic structure shifts can reduce a company's adaptive capabilities, and that these are most likely to occur in turnarounds where companies are in severe financial crisis, smaller in size, and have experienced a board initiated leadership change.

The role and importance of strategic leadership in declining environmental conditions and company turnaround has also received significant attention in the literature (Abebe, 2009). This focus of attention has included examinations of the influence of board composition on turnaround efforts (Mueller and Barker, 1997), causal attributions and performance decline (Barker and Barr, 2002), and probably most importantly the role of top management changes in turnaround performance. With regard to the latter, there is significant support for the view that turnaround performance is facilitated by the replacement of members of the top management team (Starbuck *et al.*, 1978; Grinyer and Spender, 1979; Hofer, 1980; Slatter, 1984; Barker and Patterson, 1996; Probst and Raisch, 2005; O'Kane, 2006). New leaders are more likely to break the "old rules of the game", to be less committed to past policies, and to stop attributing problems to external uncontrollable forces (Tushman and Romanelli, 1985; Hedberg *et al.*, 1976). Moreover newly appointed leaders can bring with them an ability to facilitate greater levels of change in the organization's strategies, processes and structures (Barker and Duhaime, 1997; Barker and Mone, 1998); provide fresh perspectives and critical turnaround skills (Castrogiovanni *et al.*, 1992); and indicate a level of seriousness about the recovery (Salancik and Meindl, 1984). Interestingly, these arguments with respect to the positive effect of leadership changes on turnaround sit well with other findings in the literature that draw attention to the adverse influence of long top-management tenure on corporate turnaround performance (Abebe, 2010) and the likelihood that such long-tenured executives will become more conservative and may avoid the implementation of strategic change when necessary (Wiersema and Bantel, 1992; Musteen *et al.*, 2006).

### Sharp-bending and strategic reorientations

Many contributors to the field of turnaround refer to the presence of an existence-threatening decline (e.g. Pandit, 2000; Chowdhury, 2002). Arogyaswamy *et al.* (1995), for example, state that firms in "turnaround situations are sustaining resource losses that will cause the firm to fail if unabated" (p. 497). An alternative and more suitable context of inquiry for the present research agenda is found in the work on "sharpbenders" (Grinyer *et al.*, 1990). This research looked at companies or competitors who successfully achieved superior performance and competitive advantage having previously held a position of relative decline. Unlike many studies in the turnaround literature that typically focus on companies that are forced to react after experiencing an existence threatening decline or even receivership and bankruptcy, sharpbenders are companies of different sizes that experience relative decline within their industry, are in need of renewal or improvement, and subsequently successfully manage a process of sharp and sustained recovery.

While the severity of the declines confronting companies categorized as sharpbenders are significant, it is argued here that they are not as dependent on what Gopinath (1991) terms in the broader turnaround literature as the “critical phase”. In these phases the immediate goal is not one of revival but survival, and certain decisions are taken which are at odds with the longer-term strategy of the company. Thus, our focus is on companies who, despite the severe nature of their decline, are very much concerned with implementing a suitable strategic reorientation in the course of their sharpbending recovery. In taking our lead from the work of Tushman *et al.* (1985) and later Barker and Mone (1998) in the area, this research understands strategic reorientations to involve the combination of changes in strategy, structure and control systems undertaken by a company in the course of their turnaround. Strategic reorientations have been adopted in past empirical studies in the literature (Lant *et al.*, 1992; Virany *et al.*, 1992), and are consistent with the aforementioned focus on strategic change in the broader turnaround literature (e.g. Schendel *et al.*, 1976; Hofer, 1980; Hoffman, 1989; Arogyaswamy *et al.*, 1995; Barker and Duhaime, 1997).

### Overview of research focus

Our focus on strategic reorientations during sharp turnarounds in performance in the context of the legacy airline industry sits within the broader literature of strategic change. As indicated in the turnaround literature to date, the utilization of strategic change in company turnaround can be restricted by an over emphasis on decline stemming strategies, leadership tenure, and mechanistic shifts. Despite its importance, there is a dearth of understanding and attention afforded to how strategic reorientations are implemented and can aid company turnaround.

Our research demonstrates how five under-performing legacy airlines utilized strategic reorientations to respond to prolonged periods of stagnation and/or decline within their own industry. It is anticipated that this research will illustrate how such strategic reorientations can be employed as a specific strategy of change, and contribute to the broader literature on strategic change and company turnaround. Furthermore, we look to identify the principal components to be leveraged by executives charged with the task of implementing a strategic reorientation in the legacy airline industry.

### Research methods

The research reported in this paper is based on a qualitative analysis of five longitudinal case studies of legacy airlines that embarked on strategic change between 1997 and 2006. In this historical account we employ a multi-case design that supports replication logic, whereby a set of cases is treated as a series of experiments, each serving to confirm or disconfirm a set of observations (Yin, 2003). We follow the guidelines of case selection for theory building from case studies provided by Yin (1999) and Eisenhardt (1989). The selection of the historical case sites was based on theoretical sampling, necessary so that the phenomenon of interest could be readily observed (Callinicos, 1995; Jenkins, 2010).

#### *Selection of case studies and data collection*

The five airline cases examined were selected according to a number of criteria. First, in order to qualify as mature companies, they had to have been in existence before



deregulation of the airline industry began in the USA under the Airline Deregulation Act of 1978. The 1978 Act was chosen for this purpose, as it was very much an historical turning point. It paved the way for international liberalization of the industry, ushered in an era of new competition for legacy carriers and was subsequently emulated in Australia, the EU, Japan and many other airline markets around the world. Second, given that the focus of this research is on the successful recovery by means of reorientations by legacy airlines, very small, poor performers, and/or now-defunct airlines were deliberately omitted from the scope of the study. To this end, only those airlines that have featured in the top 150 revenue-earners in the industry every year since 1997 were included. 1997 was chosen as the first year for financial data collection as archived financial data on the top 150 revenue-earners was only available from the trade magazine *Airline Business* from 1997 onwards. It was also the year when the EU airline market was completely deregulated, resulting in significant discontinuities in the business environment of several of our case companies. Third, airlines that merged or were acquired by another company since 1997 were not considered as theorizing would have been more difficult (e.g. the Air France and KLM merger in 2004 was not considered in the sample).

Just over 70 airlines qualified according to these three criteria. Net results (profit after all costs, tax, exceptional items and contributions from subsidiaries) from 1997 to 2006 in respect of each of these airlines were then analyzed. Net results were chosen over possible alternative financial indicators, such as revenue, as changes in airline revenue can be dependent on economic and regulatory factors beyond management's control. In contrast, net result also takes into account how successfully management controls costs. Also, increased revenue may indicate market growth but not necessarily profitability. It is therefore a more appropriate indicator for identifying those airlines that have improved performance through deliberate management strategies.

In order to qualify as a successful turnaround candidate, the airline had to have experienced unremarkable, poor or declining financial performance for the former part of the 1997-2006 period and at least three years of consistent growth leading up to 2006. Airlines with wildly and consistently oscillating profits and losses were discounted (e.g. Lufthansa), as were airlines that seemingly had experienced recovery but then dramatically slumped towards the end of our time frame (e.g. British Airways and Iberia). Consistently outstanding performers without periods of major stagnation or decline were also discounted (e.g. Singapore Airlines and Emirates Airlines). The aim was to pinpoint companies that had emerged from consistent underperformance to consistent growth. No objective statistical formula was applied to measure the decline and recovery in performance. Rather curves were drawn to help visualize downward and upward trends in performance. Following this process we identified eight airlines that had halted their decline and achieved sustained growth. These were Aeroflot Russian Airlines, Air Canada, All Nippon Airways (ANA), Linea Aeropostal Santiago-Arica (LAN Airlines), Qantas, TAM Linhas Aéreas (TAM Brazilian Airlines), Thai Airways International and Turkish Airlines. After contacting each of these airlines, five agreed to cooperate with our study and ultimately case studies were developed around each of these:

- (1) Aeroflot;
- (2) Air Canada;

- (3) ANA;
- (4) LAN; and
- (5) TAM.

Coincidentally, the five airlines represented a geographical mix spanning North America, South America, Europe and the Middle East.

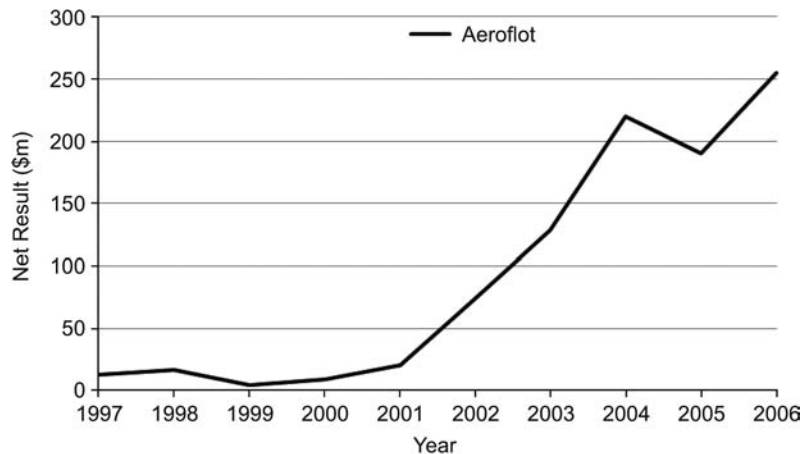
Data collection occurred at the end of our decade of focus (2006-2008) and involved mainly secondary data sources spanning ten years. These included public archival data, news clippings, accounts in specialist books and public documents. Archival data were both internal (company) and external (industry). The multiple sources of data allowed for triangulation to mitigate inherent problems of the hermeneutic circle and the use of retrospective data (Golden, 1992).

#### *Data analysis*

Data analysis was initially conducted using a “within” case analysis by compiling a list of the key reorientation initiatives for our five cases (Brown and Eisenhardt, 1997). All our cases were then compared and contrasted using a cross case analysis in order to identify key commonalities and differences between the five case airlines (Jenkins, 2010). Following this process we identified and detailed the key reorientation activities that were successfully developed and implemented by our five airlines to achieve performance improvement. Using a thematic analysis of the various reorientation activities in these five legacy airlines, we developed a framework for a successful reorientation strategy in the legacy airline industry, comprising six fundamental components. Multiple comparisons between data and theory led to the framework presented in this paper.

#### **Findings**

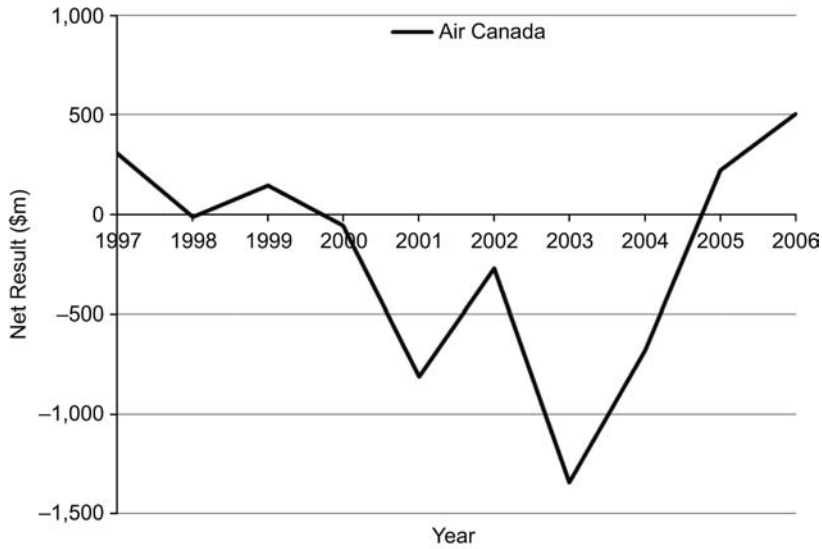
As exemplified in Figures 1-5, the reorientation trajectories of our five case companies during the chosen timeframe displays some variance in terms of



**Figure 1.**  
Net results for Aeroflot  
1997-2006

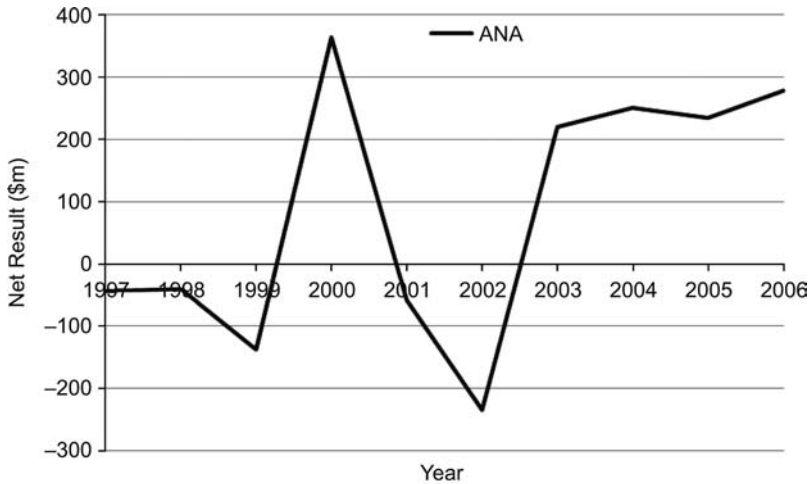
Sources: Aeroflot Annual reports





Sources: Air Canada Annual reports

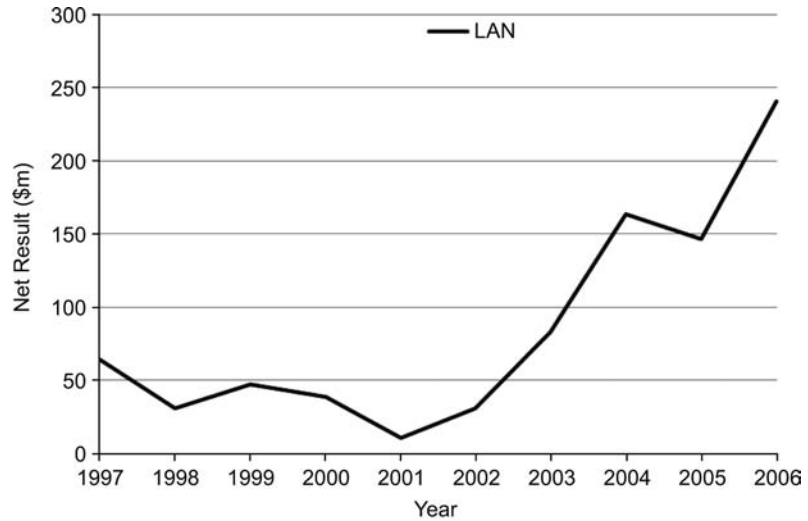
Figure 2.  
Net results for Air Canada  
1997-2006



Sources: ANA Annual reports

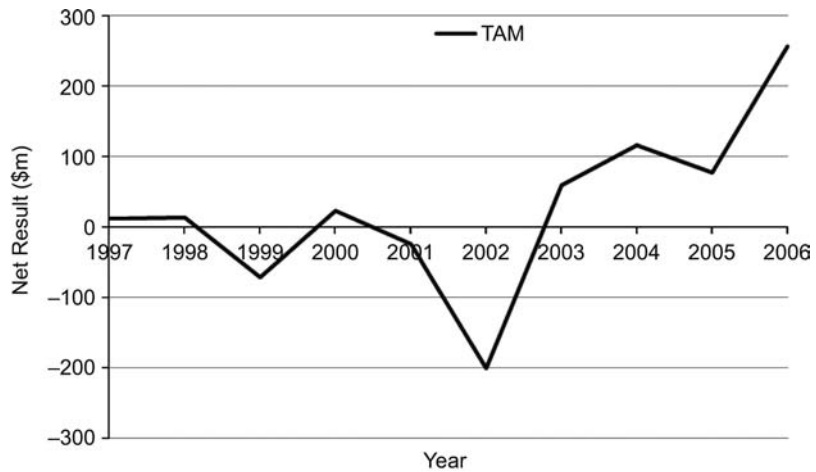
Figure 3.  
Net results for ANA  
1997-2006

consistency and performance outcome. The reorientation of Aeroflot and LAN are more similar when viewed purely on this basis, whereas there is significant divergence among the other three companies. A more revealing approach is to examine the strategic change or realignment that occurred within each company during this time period. In doing so we identified two distinct approaches, with three of our case studies focusing on “improvement and innovation” and two



**Figure 4.**  
Net results for LAN  
1997-2006

Sources: LAN Annual reports



**Figure 5.**  
Net results for TAM  
1997-2006

Sources: TAM Annual report

emphasizing “extension and expansion”. Companies that had fallen behind and were in risk of failure required the former, whilst the latter approach to reorientation was pursued by underperforming airlines where growth had declined in traditional markets and opportunities existed elsewhere.

*Reorientation through improvement and innovation*

In our investigation of the five turnaround airlines, three – Aeroflot, Air Canada and ANA – recovered through improvement and innovation. These companies either

introduced a compelling new value proposition to existing and potential customers or developed significantly more efficient business processes, enabling them to refashion and recapture established markets. Aeroflot saw its net profit rise from US\$4.5 million in 1999 to \$255 million in 2006. Air Canada went from losses of \$809 million in 2001 to a net profit of \$505 million in 2007. ANA went from consistently chronic loss making to net profits of \$279 million in 2006.

Our research found that these airlines, first, successfully deployed a compelling new value proposition to existing and potential customers, sustained by a significant shift in their market position. Finkelstein *et al.* (2007, p. 180) define a value proposition as “the offer of a product or a set of related products that a company makes to a customer, including all the experiences that go with making the purchase – before, during and after the purchase itself”. Examples of recovery through new and improved value propositions include Air Canada’s radical reworking of its fare structures to provide customers with an *à la carte* approach to pricing, allowing them to pick from a number of sub-branded fare structures (Hampton, 2006), and improved accessibility to products through internet sales and e-ticketing at all three airlines.

A second element of strategic reorientation at the airlines was leveraging of brand equity. Aeroflot, Air Canada and ANA invested in improving their respective reputations and by implication their brands. Aeroflot was the most radical in this respect, perhaps as its Soviet-era association necessitated a fundamental overhaul of its organizational perception in global markets. ANA also implemented an intentional program of brand consolidation (Ionides, 2004). Air Canada sought to reposition its brand in line with its new efforts for improved customer service as well as modernizing its livery (Knibb, 2006). Behind all of these initiatives is the basic assumption that the old way of the airline industry is dead, with Robert Atkinson, head of Sales for Air Canada in the UK and Ireland, unequivocally asserting the new ethos: “The legacy model was broken and beyond repair. We are not going back to where we were.”

Third, Aeroflot, Air Canada and ANA all reoriented their route networks. Routes and fleet were simplified at all three airlines, with special care being taken at Aeroflot and Air Canada to strengthen possibilities for transit traffic through Moscow (Sakhnova and Melnikova, 2006) and Toronto respectively. Aeroflot’s new route strategy, implemented in 2000, saw its network cut back to 90, streamlined high margin destinations. Extra high margin routes, such as to and from European capitals, saw daily frequencies increase from one to three (Ivanov, 2001).

Fourth, these three airlines used cost structure reconfiguration as part of their reorientation. Staff cuts were made at all three airlines and ancillary businesses were spun off at Air Canada and ANA in order to achieve a leaner, more focused group structure (Field, 2006). For instance, the spinning-off of Air Canada’s frequent flier program, Aeroplan, brought US\$200 million into the group, showing how value may be surfaced in less obvious aspects of the business (Michaels and Chipello, 2006). Furthermore, in all three cases, new leadership was introduced to radically rework the business model and, most importantly, to oversee the unlearning of poor practices and establish a new corporate culture committed to delivering the revised business model.

*Reorientation through extension and expansion*

LAN and TAM successfully recovered through a different route. LAN increased its revenue by a factor of ten during the 1995 to 2007 period, while TAM went from a loss of \$24 million in 2001 to net profits of \$256 million in 2006. Both are fully committed to a strong customer-focused value proposition and stand apart from competitors in the Latin American region because of the strength of their service-oriented culture. However, neither went through a radical market overhaul or corporate restructuring in the way that our previous three case companies did.

In the case of LAN, growth was achieved in part by exploiting the airline's strength in the cargo sector to offset any unexpected downturns in the passenger market (Dempsey, 2004). Forty percent of LAN's revenues come from cargo, compared to six percent at British Airways and three percent at American Airlines. This gives LAN the unique ability to breakeven with a load factor of 56 percent compared to 73 percent if it was relying on a more orthodox passenger-cargo mix. In addition, LAN has grown organically by aggressively accessing new Latin American markets and setting up airlines beyond its home country of Chile – in Peru, Ecuador and Argentina (Knibb, 2000). In this sense LAN has been successful through international expansion, premised on what Finkelstein *et al.* (2007) call a boundary breaker strategy. This is where a company carries a winning business formula from one geographically defined market space into others. In LAN's case, this was enabled through a leadership team that knew how to expand and promote the LAN brand for quality and reliability from a domestic into a regional force. LAN CEO Enrique Cueto saw the airline's rigorous commitment to customer service as the secret to making LAN's regional expansion a success: "If you ask someone going to Asia what airline they want to fly, they'll say Singapore Airlines. They know that airline is famous. And what is the basis of that fame? Service. In this industry, the image is everything and that image is created by the service that is given" (Dempsey, 2004).

Similar to LAN, the reorientation of Brazilian airline TAM was driven by product extension and market expansion prompted by a combination of three external stimuli. These were first, strong growth in the Brazilian economy (Regalado, 2007) and the country's emergence as one of the four BRIC (Brazil, Russia, India and China) economies. Second, the decline of former market leader Varig Airlines, creating a market opportunity for TAM to exploit. Third, the spur of increased competition provided by low fare competitor, Gol Transportes Aéreos (Gol Airlines). Although Gol had initially impacted negatively on TAM's profits, it forced the airline to adopt a more cost-efficient business model and ultimately improve performance. The airline successfully leveraged its reputation for customer-service (it has a 97 percent average on time record) and strong brand identity in Brazil to position itself as a more reliable, high quality alternative to Gol. This made it particularly attractive to the business segment of the market (Pereira, 2006). It was also able to improve its proposition on price, bringing prices down to make them competitive with Gol's, but still allowing a small price premium in recognition of additional service value to customers (Shifrin, 2005).

**Discussion**

Turnaround strategies can broadly be summarized as a two-stage, sometimes overlapping process of retrenchment and recovery (e.g. Schendel *et al.*, 1976; Slatter,

1984; Robbins and Pearce, 1992; Arogyaswamy *et al.*, 1995). This recovery phase, as detailed by Pearce and Robbins's (1993) process model, can involve operating strategies focused on efficiency maintenance as well as strategic moves that are more concerned with entrepreneurial reconfigurations. The strategic trends we noted in the case studies of this research enabled us to identify six common observations from the two strategic reorientations outlined above – profit maximization, quality of service, focused leadership, staff development and communication, alliance networks, and regional consolidation. Significantly, these six components, which together demonstrate how a strategic reorientation can be implemented in the legacy airline industry, strongly resonate with the two recovery strategies detailed in the broader turnaround literature. More specifically, the following four components of our proposed strategic reorientation framework represent the operating response or the efficiency-oriented strategies typically associated with the company turnaround literature (Hofer, 1980; Slatter, 1984; Pearce and Robbins, 1993).

#### *Profit maximization*

A focus on profit maximization is the foundation of reorientation during periods of attempted performance recovery. Flag carriers typically behave as unofficial representatives of their home countries and maintain loss-making routes for political or social reasons. But the airlines we studied do not act like flag carriers and are motivated by generating as much profit as possible. All five airlines engaged in simplifying their businesses by reducing costs as much as possible across all aspects of the airline. This appears to have been a universal approach in response to high oil prices and increased industry rivalry from LFAs. For example, ANA cut ¥30 billion from its cost base and shed 10 percent of its staff between 1999 and 2003 (*New York Times*, 1999). Furthermore, all five airlines cited heavy investments in information technology as being a key part of ensuring long-term cost efficiencies (ANA Annual Report, 2007).

#### *Quality of service*

All five airlines are committed to high service standards and place reliability and quality as central to their brand's identity, and none of them chose to reposition themselves as a low fare carrier. This is particularly evident in the special attention the airlines now give to servicing the business traveler market (Barroso, 2006; Ruggia, 2003). Cost reductions focused on non-customer facing aspects of the business, with the customer value proposition remaining central. As Robert Atkinson of Air Canada points out, "we had to put on products which customers actually wanted to buy, not what we thought we ought to sell". It is this commitment to customer focus that Air Canada sees as the key to moving from legacy carrier to "loyalty carrier" (Knibb, 2006). Again this particular finding resonates with Zimmerman's (1989) suggestion that companies at this point in the turnaround should avoid abrupt change in market position, and to instead focus on product quality, reliability and differentiation (Zimmerman, 1989).

#### *Focused leadership*

Effective leadership plays a key role in achieving successful reorientations during a strategic turnaround (e.g. Barker and Duhaime, 1997; Barker and Mone, 1998; Muesten

*et al.*, 2006; O'Kane, 2006; Abebe, 2009). For the three airlines that recovered through improvement and innovation, new leadership was brought in to turn around the entire organization and impacted the airline in respect of both technical and cultural aspects of the business. In particular former CEO Robert Milton at Air Canada and Valery Okulov at Aeroflot acquired almost celebrity-status through their efforts in driving recovery. For the two airlines that recovered through extension and expansion, focused, dynamic and innovative leadership helped define their success (i.e. Enrique Cueto at LAN and former CEO Rolim Amaro at TAM). Moreover the majority of the airlines' leadership teams adopted clear vision statements that help define and embed their strategic objectives right across the company. The leadership teams of the airlines studied are also noted for excellent communication and people skills. This is not ivory tower leadership conducted from a distance and in a very hierarchical fashion, as has often been the case at legacy airlines.

#### *Staff development and communications*

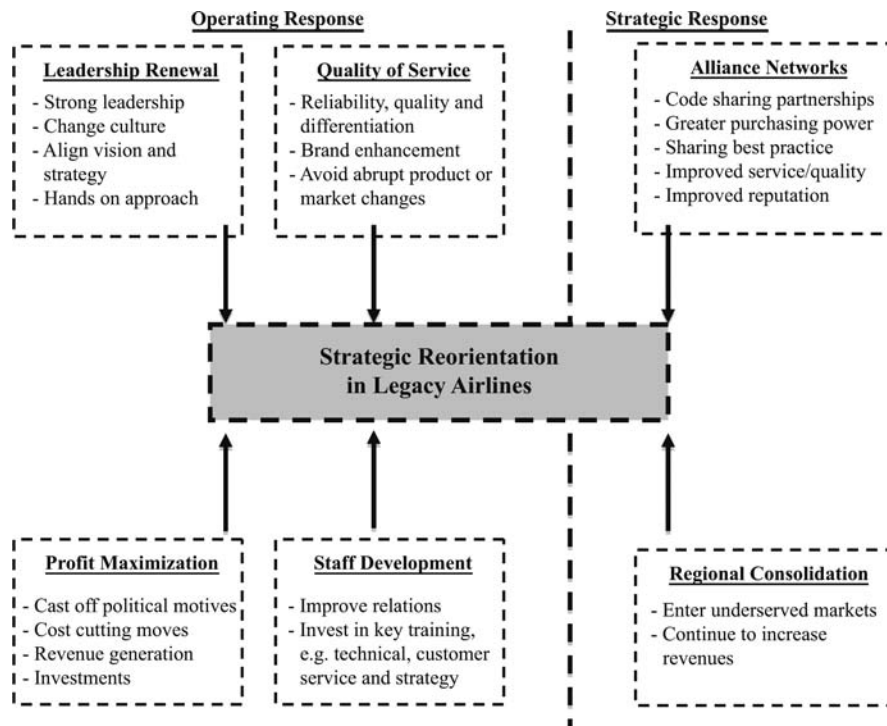
Investment in staff development and management-employee relations underpins repositioning. All of the airlines studied invested in improving relations with their staff and in providing comprehensive training for employees in technical skills, customer service and change management, especially revised corporate culture and strategic aims. Several have dedicated training academies, exclusively devoted to training and staff development – these include the opening of the LAN Corporate University in 2006 and the consolidation of TAM's Training Academy (LAN Annual Report, 2006). Excellent communications between airline management and staff during times of strategic change within the airline also characterize the repositioned airlines. When taken together, these six observations provide a powerful set of principles and practices that can be woven together into a successful repositioning strategy for the legacy airline industry (see Figure 6).

According to Pearce and Robbins's (1993) model, recovery in the form of entrepreneurial reconfigurations are required when the decline has primarily come about through external happenings. Given how deregulation, the liberalization of the airline market, and other such exterior forces (e.g. Wilson, 1980; Harrigan, 1980; Cameron, 1983; Hambrick and D'Aveni, 1988) were a principal factor in the subsequent challenges encountered by our sample, it is somewhat unsurprising that strategic changes were necessary as part of the legacy airlines' respective turnarounds. More specifically, the following two components of our proposed strategic reorientation framework represent the strategic response.

#### *Alliance networks*

Membership of an alliance network acts as a reorientation catalyst. Four out of the five airlines studied were members of one of the three big global alliances and spoke of membership in very positive terms. Membership of an alliance has the potential to assist recovery by increasing revenues through codesharing or other commercial partnerships and cutting costs through economies of scale generated by the alliance's purchasing power and the sharing of good practices and IT. For example, Air Canada and ANA credit Star Alliance with helping to further reduce cost, focus revenue streams and maximize profits, with ANA stating that Star brings a net benefit of ¥15 billion to the company annually (Thomas, 2006).





**Figure 6.**  
Framework for the successful reorientation of legacy airlines

Aeroflot credits SkyTeam with helping to catalyze improvements in its customer service and overall value proposition through the alliance's emphasis on improvements in 20 different areas of Aeroflot's business (Concil, 2007). LAN points out how Oneworld gives it global reach.

Leveraging alliance membership can also bring benefits to airlines across all dimensions of a value proposition (Finkelstein *et al.*, 2007). Price is potentially made more competitive through joint activity cost savings and revenue connectivity; product features are improved through sharing of innovative practices and know-how; quality is augmented as customers have access to a global network with integrated interlining facilities and coordinated schedules. Airlines' service standards are also improved in order to meet alliance criteria; support improves as customers can receive assistance from all alliance members around the world and are not solely reliant on representatives of the airline in their country of origin; availability improves through multiple access points and integrated route networks provided by the combined presence of all member airlines of the alliance; and reputation improves as lesser-known airlines are given a boost to their credibility because of brand association with well regarded international carriers. ANA is an excellent example of this last point, as the number of its non-Japanese customers grew significantly after joining Star Alliance, due to western business people trusting the Star brand, despite not necessarily having heard of or experienced ANA. LAN also notes that Oneworld alliance membership helped western

passengers perceive the airline more positively in terms of safety and reliability compared to other Latin American carriers.

#### *Regional consolidation*

Two of the airlines studied (LAN and Aeroflot) claimed that regional consolidation was a key aspect of their strategy – overwhelmingly so in the case of LAN. New markets can be served and therefore new revenues generated by pursuing liberalization of the regional industry and moving into lucrative but poorly served territories.

These latter two components are significant in that they strongly resonate with literature on repositioning and strategic change. Finkelstein *et al.* (2007) describe strategic repositioning as the process by which companies deploy an integrated strategy system to break from their current underperforming position and deliver accelerated growth. With respect to the alliance network component of the strategic reorientation process outlined above, it is worth noting that a number of authors have pointed to alliances as a key component of repositioning strategies, and the manner by which they can facilitate the stretching of boundaries and the accumulation of critical resources and capabilities to aid company turnaround (Dittrich *et al.*, 2007; Doz and Hamel, 1998; Kogut, 1988). This finding, and indeed the process of regional consolidation, is consistent with Dodourva's (2003) explanation of how Vodafone repositioned through product and service extension and geographical expansion to become one of the world's leading mobile telecommunications providers. Furthermore, these reorientation components are consistent with Turner's (2003) warning that companies should not reposition so as to develop an overly narrow or rigid core business that is discontinuous with their key capabilities. Instead, and in drawing a distinction between the core business and those core activities that can act as a sustained platform for growth, Turner calls for strategic flexibility that would enable companies to adapt and ensure they have the capabilities to extend their reach into adjacent new businesses, segments and opportunities. Interestingly, in the turnaround literature Hoffman (1989) also encourages the utilization of a repositioning strategy for times of growth and recovery.

#### **Limitations and future research**

Despite gathering a rich and diverse range of qualitative data, we recognize that the study's findings would have benefited from more primary data. We also recognize that sample selection procedures can often be enhanced when they are not wholly reliant on financial indicators (Fisher *et al.*, 2004). Additionally, the findings here are confounded by the fact that we have not examined whether or not the actual repositioning strategies were emergent or intentionally followed, or even if they were perceived to have been distinctive by the airlines.

Although we acknowledge the limitations of generalizing from our limited sample size, the results of our research have spurred other questions that require further exploration. For instance the inductive generated constructs in our framework need to be formally tested using more data and analysis. Furthermore, we believe that there need to be more studies conducted in the area of strategic reorientation to enhance the typologies and create more robust cross validity in findings.

## Conclusions

Aviation competition is intense across the world and legacy carriers have struggled to adapt to increased customer expectations and new competitor threats. Our study provides a ray of hope for legacy airline managers, illustrating how not only to keep pace with, but move ahead of, low fare airlines and other new entrants in the struggle for passengers, markets and profits.

This paper contributes conceptually and empirically to the literature on turnaround and strategic change on a number of levels. First, our framework not only supports existing staged process models in the turnaround literature (Grinyer *et al.*, 1990; Arogyaswamy *et al.*, 1995), but also enhances our understanding of the different operating and strategic responses that can be utilized in a strategic reorientation, particularly in relation to the legacy airline industry. Our reorientation framework also emphasizes the importance of repositioning as a strategy for change in the turnaround process. This was evident by the manner in which our legacy airlines looked to exploit value propositions, core activities, alliance networks, and product and service expansions in the course of their recovery phase.

Our findings significantly enhance our understanding of reorientation as a specific strategy of change, and how it can be implemented in a sharpbending or turnaround context. This understanding is further refined by the distinction made between improvement and innovation reorientation during times of more pronounced decline, and extension and expansion reorientation during times of market decline and/or saturation. Second, our findings serve to emphasize the presence and importance of reorientation in the legacy airline industry. This point is particularly significant as unlike the majority of empirical pieces uncovered on reorientation turnaround that tend to look at a single case or instance, our study contextualized and expanded its focus to cover the legacy airline industry.

Finally, the development of a framework for successful reorientations in the legacy airline industry represents an important contribution, and will benefit academics and practitioners alike. More specifically, in providing evidence to support the importance of focusing on profit maximization, quality, leadership, alliance networks, regional consolidation and staff development during periods of strategy formulation, this study provides a number of important insights that can help executives effectively manage their recovery process to regain competitive momentum.

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