

STRATEGIC ALLIANCE IN CIVIL AVIATION INDUSTRY  
A CASE STUDY OF CHINA SOUTHERN AIRLINES  
WITHDRAW SKY TEAM ALLIANCE

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**STRATEGIC ALLIANCE IN CIVIL AVIATION INDUSTRY**

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### **List of Abbreviations**

RBV - Resource-based View

DCV-Dynamic Capabilities View

KBV-Knowledge-based View

ST-Sky Team (Alliance)

OW-One World (Alliance)

SA-Star Alliance

CS-China Southern Airlines

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## Summary

The fast development and expansion of airlines alliance since 1970s bring great convenience to people's traveling and create great value for the whole transportation industry. With the practice of Standardized service process, code-sharing and other resource sharing, the civil aviation industry gradually formed the three major alliances "dominant" the world market pattern. While in order to reposition its development strategy and pursue new partnerships, member of Sky Team Alliance, China Southern Airlines announced to withdraw ST and turns to bilateral cooperation at capital level like joint venture and equity merger. This event is regarded as the start of revolution in civil aviation industry.

This master thesis is presented as a form of case study, aimed to teach students to understand the implication and development of Strategic Alliance, cultivate the analyzing ability in order to apply theoretical knowledge in realistic situation. In order to achieve the aim, the lesson should be given in an animating way to attract students' full attention so that participating class discussion actively can make sense.

Hence, China Southern as the biggest airlines in Asian and Pacific area, whose strategy change has a significant impact on the industry pattern. In addition the diversities of its partnership strategy is research valuable. Based on this, students can not only obtain plenty of information to answer the questions, but also learn the diversity of strategic alliance from different aspects.

In this case, qualitative method is the approach that deals with the resolution of issues generally. Under the approach, students will be divided into groups and make a discussion about the questions.

**Key Words:** Strategic Alliance, Airlines Alliance, joint Venture, Pedagogy

## **Resumo**

O desenvolvimento rápido e expansão da aliança de companhias aéreas desde os anos 1970 trazem grande comodidade às viagens das pessoas e criam grande valor para todos os setores de transporte. Com a prática do processo de serviço padronizado, compartilhamento de códigos e outros recursos, a indústria da aviação civil gradualmente tem formado as três principais alianças que dominam o mercado mundial. Para reposicionar sua estratégia de desenvolvimento e buscar novas parcerias, o membro da Sky Team Alliance, a China Southern Airlines, anunciou sair da ST e tornar-se para a cooperação bilateral em nível de capital, como empreendimento conjunto e incorporação de ações. Este evento é considerado o início da revolução na indústria da aviação civil. Esta tese de mestrado é apresentada em forma do estudo do caso, com o objetivo de ensinar os alunos a entender as implicações e o desenvolvimento da Aliança Estratégica, cultivar a capacidade de análise para aplicar conhecimentos teóricos em situações reais. Para fazer isso, as aulas devem ser dadas de maneira animadora para chamar a atenção dos alunos, neste caso, participar a discussão das aulas ativamente vai ser significativa. China Southern é a maior companhia aérea da região da Ásia e do Pacífico, cuja mudança de estratégia tem um impacto significativo no padrão da indústria. Além disso, as diversidades da sua estratégia de parceria são valiosas para a pesquisa. Com base nisso, os alunos podem não apenas obter muitas informações para responder às perguntas, mas também aprender a diversidade da aliança estratégica sob diferentes aspectos.

Nesse caso, o método qualitativo é a maneira que resolve os problemas geralmente. Com esta maneira, os alunos serão divididos em grupos e farão uma discussão sobre as questões.

**Palavras-chave:** Aliança Estratégica, Aliança de Linhas Aéreas, Empreendimento Conjunto, Pedagogia

## **1 The case**

### **1.1 The Event China Southern quit Sky Team Alliance**

On 15<sup>th</sup> November 2018, China's biggest Airlines Group China Southern has announced that it will leave the Sky Team alliance on 1<sup>st</sup> of January 2019 as it repositioned their development strategy and pursue new partnerships with carriers around the world.<sup>i</sup>

12years ago, the ceremony for China Southern Airlines joined the Sky Team Alliance took place in People's Great Hall in Beijing. According to the press released at that time, China Southern became the first airline in China to join the World Aviation Alliance. This history making event made the true integration of China's civil aviation with the world.

On their statement, China Southern said: “This decision is based on the needs of its own development strategy and adopting the new trend of global civil aviation industry cooperation. The company will explore the possibility of establishing new partnerships with advanced airlines around the world, promote bilateral and multilateral cooperation and provide quality services to passengers around the world.

Kristin Colville, the CEO of Sky Team Alliance expressed his thanks to the contribution of China Southern. He said he respected the decision of China Southern and wished it well. China Southern also thought highly of the cooperation with Sky Team and sincerely appreciate the support and assistance to China Southern Airlines within the partnership of Sky team.

Withdrawal of the airline alliance is actually not the first time in Chines civil aviation industry. Shanghai Airlines officially became a member of the Star Alliance on December 12, 2007. However, in June 2009, Shanghai Airlines was acquired by Eastern Airlines. On October 30, 2010, Shanghai airlines declared withdraw from the Star Alliance and joined Sky Team with China Eastern together in 2011. Also in the worldwide, the sum of the number of airlines joining and withdrawing from the three major airline alliances has exceeded the number of airlines in the current alliance. Just in the year of 2019, Qatar Airways and Latam Groups or have great possibilities to withdraw One World alliance.

In fact, withdraw from Sky Team for China Southern is not a sudden decision. As the first airline to join the airline alliance in China, China Southern starts its short honeymoon with other Sky Team alliance members 12 years ago. However, with Shanghai based airlines China Eastern joint Sky Team in 2011 , the two industry giants became seemingly in harmony but actually at variance because of the Overlap of their service scope. China Southern Airlines has gradually been marginalized in Sky Team



as the result of acquisition and cross-shareholding between China Eastern and Giant of Sky Team Delta Airlines and Air France KLM Group. Just from Year 2018, American Airlines, a founding member of One World Alliance became a shareholder of China Southern Airlines, the two inter alliance parties planned to expand deep cooperation, but the released plan was far away from deep cooperation. The two sides only chose to codeshare on some routes, even not disclosure details on their frequent flying loyalty programs. It is speculated that the non-expected cooperation result is subject to the pressure and institutional constraints within the Sky Team Structure. It is said that since then, China Southern's determination to withdraw the Sky Team alliance has become firmer.

## **1.2 Development of the case**

### **1.2.1 China Southern Airlines**

#### **1.2.1.1 Abstract of China Southern Airlines <sup>ii</sup>**

China Southern Airlines Co Ltd was established on March 25, 1995, which directly affiliated with China Southern Air Holding Company Ltd, specializing in air transportation services. With headquarters based in Guangzhou, China Southern Airlines has its company logo seen around the globe with a brilliant red kapok delicately adorning a blue vertical tail fin. China Southern Airlines possesses the largest fleet and the most developed route network and offers the largest passenger capacity among any airline in the People's Republic of China.

With continued efforts to establish itself as a network-oriented world-class airline with Chinese characteristics, China Southern Airlines has formed an extensive network across China that links Europe and Oceania and radiates throughout North America, the Middle East, and Africa from Asia. They operate more than 3,000 daily flights to 224 destinations in 40 countries and regions across the world. In year 2016 China Southern transported 140 million passengers

Currently China Southern Airlines has more than 840 passenger and cargo transport aircraft,

Their fleet include Boeing B787, B777, B747 and B737, as well as Airbus A380, A350, A330, A321, A320, and A319. The airline's fleet ranks 1st in Asia and 3rd in the world (Data source: IATA)

The first Boeing 777 was delivered to China Southern on December 28, 1995, making it the first operator of this model in Asia. In the following year, China Southern launch its first intercontinental flight from Guangzhou to Amsterdam stopover in Beijing by Boeing 777.

China Southern Airlines opened another intercontinental route across the Pacific Ocean: Guangzhou to Los Angeles in Year1997. The departure route of the flight number CZ327 is also the farthest route of China Southern Airlines. At the same time, China Southern became the first airlines in aviation history to conduct an extended-range twin-engine operations (ETOPS) flight cross the Pacific Ocean by Boeing777

On September 29, 2003, China Southern Airlines ordered four A330-200 series passenger aircrafts from Airbus. The first aircraft has been delivered from Airbus on February 28, 2005, making China Southern the first operator of A330 in mainland China. China Southern ordered six Boeing 777 Cargo to support the growth in cross-Pacific operations from October 2006, The first aircraft was delivered on December 3, 2009, making China Southern the first airline in mainland China and the fourth airline in the world to operate the aircraft. China Southern Airlines received the first Airbus A380 at Beijing Capital international Airport on October 15, 2011 and its first Boeing 787 from at Guangzhou Baiyun International Airport On June 2, 2013 becoming the first airline in China to operate two of the world most efficient aircrafts. In 2011, China Southern Airlines earned its Four-Star status from SKYTRAX, the world's most prestigious airline performance evaluation organization. It's China's first state-owned airlines to get this title. In year 2018, the World's Most Improved Airline title was issued to China Southern by Skytrax and in the following year, China Southern ranks No 14th on the Top 100 airlines in the world list announced on the Paris Airshow by the same authority From year 2014, China Southern was awarded different top tittles like Stars of China Award by Global Finance Magazine ,the China's Most Admired Company Award by Fortune China, China's Top 100 Valuable Brand Enterprise Award & Golden Pegasus Award on International Transportation & Logistics Expo, most valuable airline brands by Brand Finance and so on.

## **1.2.1.2 Strategy of China Southern Airlines**

### **1.2.1.2.1 Build International Hub with Canton Route**

#### **Canton Road Overview <sup>iii</sup>**

The “Canton Road” strategy is that China Southern regards Australia as the most important overseas market and establishes a strategy of re-launching Australia and re-connecting Europe and Oceania around the Guangzhou hub.

In 2004, New Guangzhou Baiyun International Airport was officially taken into use. China Southern Airlines transferred from the old airport to the new airport T1. During the operation period of T1, China Southern Airlines developed rapidly. In 2005, it proposed the strategic goal of building an international scale network airline. In 2009, it also turned the Australian transit as a breakthrough in the company's internationalization strategical transformation, and officially released Guangzhou Road's development strategy in Year 2012. At that moment, China Southern has placed more than 200 Aircrafts at Guangzhou Baiyun Airport. In 2017, it carried out 31.76 million passengers, accounting for nearly 55% of the total passengers of Baiyun Airport. The number of transit passengers in the Guangzhou hub reached 4.08 million. Guangzhou has become the first gateway hub from mainland China to Oceania and Southeast Asia.

“Canton Road” has formed two sectors of Europe and Oceania as the core; with Southeast Asia, South Asia and East Asia as the hinterland; Connecting a comprehensive network of radiation routes in North America, Latin America, the Middle East and Africa. Guangzhou has become the first gateway hub from mainland China to Oceania and Southeast Asia.

### **Guangzhou and Canton Road**

Guangzhou is a city that has come from history. In ancient times, there was a maritime Silk Road connecting East and West in Guangzhou. Today, through Guangzhou, there is an aerial rainbow bridge which runs through Europe and Australia. It is called the “Canton Route connecting China and Oceania with China Southern base Guangzhou as the pivot point. Historically, Guangzhou, located in southern China, is known for its openness. The Maritime Silk Road, which began in the Qin and Han Dynasties, started from Guangzhou. Through Guangzhou, China opened its southern gateway, went out and welcome the wind from all over the world. For two thousand years, Guangzhou’s opening condition has never been interrupted. After the founding of PRC, Guangzhou has started to held a top Class economic event that communicated with the world the China Export Commodities Fair (Canton Fair). In the following 70 years, Guangzhou has become an important window for China's foreign trade. In 2010, Guangzhou hosted the 16th Asian Games, and appeared in the world with the image of a brand-new international metropolis. As a Guangzhou Based airlines, Southern has been rooted in Guangzhou for a long time. It has absorbed the cultural characteristics like “open”, “innovative”, “pragmatic”and “inclusive” of the city. In the development process of dozens of years, China Southern constantly innovate and break through themselves.

### **Gateway hub to Oceania**

The Australian strategy, which began at the end of 2009, is the launcher of China Southern's move to an international scale network airline strategy. After two years of pioneering and enterprising, by the end of 2011, China Southern Airlines has reached five navigation points in Oceania, with 42 flights a week and Guangzhou has become China's first gateway to Oceania. China Southern established the absolute advantage of China to Oceania. In the context of China's first gateway, Guangzhou has once again become a new jumping point connecting Europe and Oceania. With the Guangzhou as the fulcrum, China Southern Airlines set up a "Silk Road" to communicate with Europe and Australia in the air.

On August 15th 2012, China Southern Airlines officially launched the Canton Route, an air bridge connecting Europe and Asia Australia in Guangzhou. This is a new milestone in the strategic transformation and development of China Southern's internationalization. It marks an important step for China Southern to build an international aviation hub and actively participate in global competition.

At the same time, China Southern has also signed strategic cooperation agreements with Australia's five major tourism bureaus such as Tourism Australia, Sydney, Melbourne, Brisbane, Perth and Guangzhou Baiyun Airport. They are going to strengthen cooperation and jointly promote the construction of "Canton Road"

China Southern Airlines Operate the routes between china and European in Amsterdam, Paris, London, Rome, Frankfurt, Vienna. These routes constitute two beautiful sectors from Guangzhou to Oceania in Sydney, Melbourne, Cairns, Gold Coast, Brisbane, Perth, Auckland, Christchurch. China Southern's sector route network to Europe and to Oceania, with the Guangzhou hub as the connection point, support each other and leverage each other to form the "Guangzhou Road"

The annual passenger flow between Australia and Europe exceeds 5 million. However, due to the long distance between the two places, it is necessary to stop "jumping" at a certain transit point. This is the famous "Kangaroo route". More than 20 airlines, including Singapore Airlines, Cathay Pacific, Qantas Airways, Emirates, and British Airways, have been operating the kangaroo lines for many years, forming established hubs such as Singapore, Hong Kong and Bangkok, and emerging hubs such as Dubai, Doha and Abu Dhabi. Compared with Singapore, Dubai, Hong Kong and other transit hub linking Europe and Australia, the "Canton Road" is both ancient and fresh. On the ancient aspect, the opening and communicating history lies in Canton (Guangzhou)for two thousand as well as international popularity. On the fresh hand, the Guangzhou hub is a rising star. It would get competitive

advantages with the backdrop of long-running Lingnan culture and supported by a vibrant Chinese economy, with strong and novel appeal.

The headquarter of China Southern Airlines is located in Guangzhou, which is located in South China and adjacent to Southeast Asia. It is the largest city in China with the shortest flight distance from Australia. The passengers from all over the world transit to Australia via Guangzhou would have a low encirclement rate, which saves an average of 2 hours compared with Beijing and Shanghai. In addition, Guangzhou is in the middle of Europe and Oceania. It has the same round-off rate as Hong Kong and Singapore with a balanced flight time. It would be an ideal transit point for the unique condition for the development of the sixth freedom right.

### **Deeply develop canton Route, build a world-class aviation hub**

On May 19, 2018 China Southern Airlines and Guangdong Airport Management Group held a press conference to announce China Southern Airlines transfer to operate at Baiyun Airport T2 from T1. This transaction also includes the airlines belonging to the CSA groups and representative by China Southern such as Chongqing Airlines, Sichuan Airlines, Hebei Airlines, and Korean Air, Vietnam Airlines, Air France, Aeroflot, China Airlines, Thai Airways, Singapore Airlines, Japan Airlines, Xiamen Airlines, Indonesian Eagle Airlines, Saudi Airlines, Kenya airways, Garuda Indonesia. As the main base company of Baiyun Airport, China Southern Airlines will undertake more than 90% of the passenger volume of the terminal 2. On the first day of the transition, China Southern Airlines has more than 600 flights operated in T2. The construction area of Baiyun Airport T2 is 658,700 square meters, and the designed capacity is 45 million passengers per year. With the launch of T2, Baiyun Airport is expected to become the third airport with an annual passenger throughput of over 70 million in the mainland of China just following Beijing and Shanghai. The Baiyun Airport Integrated Transportation Center (GTC), which was put into use at the same time with Terminal Building. With a construction area of 222,000 square meters, it is currently the largest integrated transportation hub in South China. It can provide closed connection of civil aviation, urban rail, subway and expressway, which provides more convenience and variety for passengers transportation choice.

As a key point of Canton Road construction, China Southern Airlines has made a close cooperation with Guangzhou Baiyun International Airport, as well as customs and border immigration units to increase efficiency of the Guangzhou hub. China jointly established a multi-level communication and coordination mechanism to maintain a close relationship.

In addition, China Southern also focus on Continuous improvement of transit service. Since the “Canton Road” was launched, China Southern Airlines is carrying out a through-pass flight, The transit passengers do not need to pick up their luggage at the airport. They have been fully implemented on international transit flights. At the same time, it has continuously enriched the air-ground intermodal products, and gradually formed three kinds of service products, namely, air-bus combined transport, air-rail combined transport, and pick-up and drop-off, which enriched Guangzhou hub from the sky to the comprehensive traffic on the ground.

With the new service facilities of T2<sup>iv</sup>, China Southern will provide intelligent, international and humanized services to the passengers, enhance the depth and breadth of the “Canton Road” and promote the connection between Guangzhou and the world. Through the developed route network of China Southern Airlines, as well as the comprehensive transportation hub between air and ground, passengers can reach the world from Guangzhou T2, and passengers from all over the world can reach most cities in China through Guangzhou. Guangzhou will form a “four-hour air traffic circle” with major cities in China and Southeast Asia and form a “12-hour air traffic circle” with major cities around the world.

Connecting the National Strategy-The canton Road service for One road and belt and Great BAY District construction. China Southern's internationalization strategy, in addition to its own advantages, is also combined with national strategy. The “One Road and Belt” strategy coincides with the existing capacity layout of China Southern Airlines Guangzhou and Urumq, the headquarter and main hub of China Southern are regarded as starting point of the “21st Century Maritime Silk Road” and the “Silk Road Economy” bridgehead.

According to national strategy of China, The great bay district Canton, Hong Kong and Macau Bay Area is one of the regions with the highest degree of openness and the strongest economic vitality in China. It will be built into a world-class Bay Area and a world-class city group. As the central city of this area , Guangzhou will face the opportunity to be the new growth pole of China's economy. As an airline headquartered in Guangzhou, China Southern Airlines is committed to building the Guangzhou International Aviation Hub and continues to develop the “Canton Road”. The hub effectiveness is constantly emerging. China Southern Airlines continues to increase its capacity in the countries and regions along the “one Road and Belt” area.

The “one Road and Belt” involves 64 countries. Prior to the introduction of this national strategy, China Southern operates 115 routes in 33 of them. After the vision was put forward, China Southern

Airlines' "One Belt, One Road" route increased by 51, and the number of flights increased by nearly 200. Currently, it operates to 71 cities with 166 routes and 954 flights per week. Take the Urumqi hub as an example. At present, China Southern Airlines has carried out 19 international regional routes from Urumqi, reaching 15 countries, covering most of Central and Western Asia. Relying on the advantages of Canton's trade with Africa, China Southern Airlines also opened the African route from Guangzhou to Nairobi. At the same time cooperating with national strategy, China Southern Airlines has maintained good performance. The average passenger load factor of China Southern Airlines' on "One Belt, One Road" flight is close to 80%. In the recent following years, More routes of China Southern Airlines will be launched on the "Belt and Road" countries. Starting from Guangzhou, China Southern will add more than 10 routes to Myanmar, Laos, India, Iran, Austria, Hungary and other countries. From Urumqi, it will also add several routes to Georgia, Pakistan and even Central and Eastern Europe.

In addition, by continuously improving the international and domestic route network, China Southern has increase the flow of people, logistics, information and capital nationally and internationally, promote the construction of a world-class airport group in the Pearl River Delta and better serve the economic and social development of entire Great bay District of Guangdong, Hong Kong and Macau.

#### **1.2.1.2.2 Build a Beijing-Guangzhou dual hub.<sup>v</sup>**

##### **Key position of Peking market**

In recent years, China Southern has great investment on building the "Canton Road" to make Guangzhou a world class civil aviation hub. Also owe to the great performance of Guangzhou hub, China Southern has become the largest carrier on the China-Australia and China southeast Asia route. While comparing with Beijing and Shanghai, the location and economic hinterland of Guangzhou would be less attractive for business travelers. That brings China Southern more pressure on Passenger volume as well as revenue and interest rate. As early as China Southern received their first A380, the world bigger passenger jumbo in 2011, they were attractive by the strong passenger flow for business purpose and great potential of Beijing markets. So sooner after that, China Southern Airlines proposed a strategy to build a Beijing-Guangzhou dual hub.

For a long time, Beijing has always been a battleground for all airlines who operate in Chinese market because of its great position, political and cultural center of People's Republic of China and boom of business passengers.

## **Fierce competition in Beijing market**

In recent years, Even China Southern Airlines and China Eastern Airlines have been approved to have hubs or branch in Beijing, due to the limited airspace resource and lack of airport schedule, most of the airlines are unable to obtain ideal flight schedules and navigation rights. In addition, Beijing Based, state owned Airlines, Air CHINA, a star alliance member has great Privileges and advantages to obtain the airport schedule and navigation rights in Beijing which compressed living space of other airlines like China Southern. The A380 Jumbo of China Southern only operate seasonal intercontinental flight from Beijing to Amsterdam or some chartered flights which are unable to reach the expected benefit brought by this aircraft. In the early years after A380 joint China Southern fleet, the operation of this aircraft made great negative effect on their financial report even made their operations sucked into huge loss and financial crisis.

## **Hope and opportunity the Beijing new airport**

The construction of Beijing Daxing International Airport has brought hope to many airlines, like China Southern ,who used to be limited in the Beijing market . Beijing Daxing International Airport (IATA code: PKX; ICAO code: ZBAD) is the second international airport in Beijing under construction in Daxing District, Beijing, the People's Republic of China. The terminal building was completed on June 30, 2019. And the whole airport are expected to put into use before end of September 2019. The airport is supposed to be a large international aviation hub with four runways, which can meet the needs of 750 million passengers annually. According to the long-term plan, Beijing Daxing International Airport will have 6 runways (including the existing 4 in the first phase), which to suitable for 100 million passengers volume, 880,000 aircraft take-off and landing and 4 million tons of mail of cargo transportation. This new airport is about 46 kilometers away from Tiananmen Square the center of Beijing and about 50 kilometers away from the future Xiong'an New District. The new government center of China.

China Southern Airlines, as the main base airline of Beijing New Airport, will carry out base construction in accordance with the target of 40% of the air passenger traffic which makes China Southern the biggest airlines of New Airport. Just at the end of June, China Southern's base construction was completed simultaneously with Airport Terminal and is scheduled to be put into use on September 20. At that time, China Southern Airlines will enter the Daxing Airport as a leading base airline. The Beijing hub is supposed to be to a strategic point for China Southern Airlines.

## **Dual Hub layout Collaborate and Complement with each other**



According to the development plan, by 2025, China Southern is expected to operate more than 200 aircraft at Beijing Daxing International Airport and over 900 flights per day.

In order to build a strategic pattern of double hub echoes with each other, China Southern make great effort to achieve their target including introducing new flagship fleet to Beijing base, making great investment in the construction of the new airport and restructure of Beijing based branch and subsidiary

On July 3, an Airbus A350 aircraft of China Southern Airlines took off from Guangzhou Baiyun Airport and executed CZ3523 (Guangzhou-Shanghai Hongqiao) flight. This is the first Airbus A350 aircraft introduced by China Southern Airlines. By 2022, China Southern will operate a total of 20 A350-900 aircrafts which are the new flagships based in Beijing Daxing hub.

The A350 aircraft has a longer range, a larger internal space, and a stronger payload capacity on the medium and long-haul routes, which will play an important role in the construction of China Southern's Beijing hub.

In addition, Xiong'an Airlines, a wholly-owned subsidiary of China Southern Airlines with a total investment 10 billions RMB in Xiong'an New District, has also been approved. Xiong'an airline's business scope includes providing domestic, regional and international regular and non-scheduled flights; cargo, postal and baggage transportation services; providing aircraft maintenance services; operating agent business; conducting other aviation business and related business, Including advertising for the business; engineering management and technical consulting; sales of aviation materials; travel agency services.

This investment of Xiongan airlines is mainly to better build and operate the Beijing hub and promote the strategic layout of Guangzhou-Beijing "Dual Hub. Even there is already a branch of China Southern Airlines in Beijing which will operate in Beijing New Airport in 2019. As a subsidiary, the newly established Xiong'an Airlines is more convenient to apply flight schedules and navigation rights.

### **1.2.2 Sky Team Alliance**

Strategic alliances are likely to emerge in any industry as a means of self-regulation of the market. But in the civil aviation industry, the development of alliance relations is more stable than other industries, and gradually formed the three major alliances "dominant" the world civil aviation market pattern. Statistics show that the three major air alliances account for about 62% of the global civil aviation passenger market. The three major global aviation alliances are Star Alliance, Oneworld

Alliance and Sky Team Alliance. In the global passenger transport market, Star Alliance accounts for 24.2%, Oneworld 18%, Sky Team 19.8%, in greater China (including Hong Kong and Taiwan) passenger market, Star Alliance accounts for 27.99%, Alyson accounted for 13.28%, Sky Team accounted for 32.47%.

None of a single airline has a route network that can cover every corner of the world, and the significance of forming an aviation alliance is to make up for it. Alliance members can expand their route network, increase capacity, increase flight density, and make it easier for passengers to connect at international hubs without limited resources investments. If the route network between alliance partners is highly complementary, it can effectively increase the passenger rate and reduce costs. In addition to using code-sharing and route pooling to expand the network, member companies can also enhance brand influence by providing a better travel experience for more travelers through resource sharing (terminals, lounges, check-in counters, etc.), ground handling cooperation, flight connectivity, points exchange, and even joint procurement.

#### **1.2.2.1 Abstract of Sky Team Alliance**

Sky Team is the youngest and second-largest airline alliance of 20 airlines members including China Southern airlines. Aeroméxico, Air France, Delta Air Lines and Korean Air founded Sky Team in June 2000. Royal Dutch Airlines became a member of Sky Team with other four Air Wing Alliance members in September 2004. Since then, they have steadily grown to their current membership of 19 airlines. Over the last decade – a challenging one for the aviation industry – They have more than tripled the number of member airlines, doubled the number of flights and nearly doubled their destinations, while offering customers smoother connections around the world. They focus on covering the globe network of civil aviation industry. They have added airlines from virtually every corner of the planet, in addition to flying from some of the most modern and convenient hubs in Europe, the United States, Asia and Africa. As they grow, they continue to offer their customers frequent flyer programs, more destinations, more frequencies and better connectivity.

Sky Team member airlines operate more than 14,500 flights per day and have 3600 aircraft, covering 1150 destinations in 175 countries and territories around the world. In addition, Sky Team has 750 lounges worldwide, carrying 630 million passengers a year.

## **1.2.2.2 Strategy of Sky Team and its competitors**

### **1.2.2.2.1 Star Alliance: Strong intra-alliance cooperation mechanisms<sup>vi</sup>**

Star Alliance is a multilateral network of 27 airlines, most of whom have agreements with other members of the alliance. These agreements have some exclusive constraints. These constraints emphasize to strengthen cooperation within the alliance and strictly limit cooperation with members outside the alliance group. To some extent, Star Alliance can be considered as the most genuine multilateral alliance group, where each member works with all other members at varying degrees.

Within the Star Alliance, in order to strengthen and coordinate bilateral cooperation between airlines and achieve multilateral regulation, the Alliance Management Committee, known as the AMT is managed by executives of member airlines and outside experts within the civil aviation industry. Also the Star Alliance adheres to the principle of "one vote for every member", which means that every airline company, regardless of its size, has an equal say in voting in the alliance

### **1.2.2.2.2 One world Alliance: Boutique Non-mandatory strategic alliances, emphasizing the overall quality**

One world Alliance is smallest within the top three airlines alliance with only 16 member but highest standard to be a member. <sup>vii</sup>They pay more attention to the overall quality rather than expending speed and network coverage. For example, One of the members Qatar Airways has long ranked in the top three in the world and has been rated as a five-star airlines for many years by Skytrax which cements the company's important transit hub in the Middle East. Another example is Qantas, as Australia's only alliance member, dominant Oceania regional market. Qantas has always been in a good relationship with China Southern. Its CEO has said that the best partner in China Mainland must be located in Guangzhou. Another founder member of One World alliance Cathay Pacific is still one of the best airlines in the world even it is experiencing the most difficult period of history. Since 2016, Cathay pacific airlines suddenly broke the loss. Although the fuel hedging is the most important factor. While in this year, after various reforms, passenger revenue still has no signs of improvement. Even worse, the violent demonstrations in Hong Kong have spread to all walks of life. The number of tourists has been greatly reduced, and Cathay Pacific, which relies on transit passenger flow, has suffered heavy losses.

One world Alliance can be considered as an airline Mutual benefit alliance. Members of the One world may strengthen cooperation and mutual assistance concessions within the alliance while they

are not subject to exclusive restrictions. They also enjoy the freedom to cooperate with other members out of the Alliance even with competitor alliance. One world's governance structure consists of the Supreme Council and executive council. The Supreme Council is composed of ceos of each member airline. They meet three times a year to develop the alliance strategy. The executive council is a management group consist of airline representatives who meet four times a year and charge the implementation work of the alliance. One world Management company supports the daily management of One world alliance. They established a team of 20 independent experts at headquarters. In one world alliance the cooperation between members is relatively loose, only some members signed code-sharing agreement, unified the ticketing system, and coordinated time arrangements.

#### **1.2.2.2.3 Sky Team Alliance Full-scale expansion with Sub-alliance cooperation**

Although established at the latest, Sky Team is the fastest growing alliance. There are 20 member companies flying to 177 countries and regions. With the rapid expansion in every corner of the world they also focus on some target areas. They have an amazing network coverage with the great china areas with four member airlines participated. (China Airlines, China Eastern Airlines, China Southern Airlines and Xiamen Airlines)

#### **Sub-alliance cooperation <sup>viii</sup>**

Comparing with Star allian and one world alliance, Sky Team are not generous to their top elite members. So it's always been a lot of criticism on their elite member benefits. For example, even when the top elite Gold members (Sky Team elite plus) take domestic flights operated by Sky Team member airlines, they are not guaranteed lounge access. In order to make up for lack of sincerity on elite members' benefits and to consolidate the target market, they also compose kinds Sub-alliance cooperation.

One of the Sub-alliance program is “greater china connection ”with 4 of their members airlines based in the Great China area (China Airlines,Taipei ; China Eastern Airlines, Shanghai ; China Southern Airlines, Guangzhou ; and Xiamen Airlines,Xiamen) With this program, Sky Team elite members of the fours airlines would have the access to the self - operated airport lounges by Sky Team when they take the flight between China Mainland , Taiwan, Hongkong and Macau. In addition, Sky Team elite plus members would have the lounge access to all self - operated airport lounges by Sky Team when they take the domestic flight in China. ( For this benefit, is not guaranteed outside greater china connection program)

### **1.2.3 Non-Alliance strategic cooperation**

On the statement of China Southern Airlines published on their website “Based on the needs of its own development strategy and the new trend of adapting to the global air transport industry cooperation model, the company decided not to renew the Sky Team Agreement since January 1, 2019. ” They would like to explore new partnerships with leading airlines around the world would be the incentive to quit Sky Team. This is not a sudden decision but highly relative with the whole layout of civil aviation industry and the partnership between airlines company and airlines alliance. Except the inner alliance cooperation, strategy of relationship out of the alliance structure also play an important role.

#### **1.2.3.1 Non-Alliance Cooperation of China Southern**

##### **1.2.3.1.1 Cooperation between China Southern and American Airlines <sup>ix</sup>**

On November 28th 2018, China Southern Airlines and American Airlines signed a code-sharing cooperation expansion agreement, a frequent flyer cooperation agreement and a lounge cooperation memorandum in Guangzhou. The two sides will further strengthen business and strategic cooperation to provide passengers with more convenient and qualified travel experience.

American Airlines is the world's largest airline when measured by fleet size, revenue, scheduled passengers carried, scheduled passenger-kilometers flown. While it is still a rookie in the competition in Asia-Pacific area especially on China-US route. Its main competitors Delta Airlines and United Airlines are much more developed in this market. Founder of Star Alliance, United Airlines operates more than 300 flights in 31 countries or regions in the Asia Pacific area to or from the US every week. It is the most widely served US airline in Asia. Also founder of Sky team alliance, Delta airlines focus on the Asian Pacific Market. With deep cooperation with China Eastern and Korean Airlines, it has developed network from its Asian base in Shanghai Pudong, Incheon Seoul and Tokyo Narita International Airports.

#### **Route cooperation covers major cities in China and the United States**

After obtaining approval from the civil aviation authorities of China and the United States, China Southern Airlines and American Airlines are expected to expand cooperation on code-sharing, frequent passenger and lounge cooperation in January 2019. Among them, the code-sharing cooperation will cover the China-US main cities routes operated by both parties and extend to more domestic route networks in China and the United States. The code sharing agreement is implemented on Guangzhou-

Los Angeles, Guangzhou-San Francisco, Guangzhou-Wuhan-San Francisco, Guangzhou-New York, Shenyang-Los Angeles operated by China Southern and Dallas-Beijing, Dallas-Pudong, Los Angeles-Beijing, Los Angeles-Pudong operated By American Airlines . 64 flights are jointly provided during the peak period by the two parties. At the same time, the they will also expand code-sharing cooperation in their domestic route networks, ranging from Los Angeles, San Francisco and New York to 21 US cities by American Airlines and route from Beijing and Shanghai Pudong to 20 cities in China by China Southern Airlines. At that time, passengers can purchase the China Southern Airlines code-sharing flights actually operated by American Airlines from the China Southern Airlines sales channel and enjoy one-ticket service.

### **More mileage accumulation and redemption opportunities**

The two parties also signed a frequent flyer cooperation agreement and a memorandum on lounge cooperation. According to the agreement, China Southern Airlines members take all American Airlines flights, mileage can be accumulated to their China Southern Airlines account, and redemption of China Southern Airlines or American Airlines tickets. American Airlines members taking any China Southern flight, mileage can be accumulate to their American Airlines account and redeem the ticket for China Southern Airlines or American Airlines. As a result, American Airlines AAdvantage members can accumulate and redeem miles on more than 3,000 flights to 224 destinations in more than 40 countries and China Southern Airlines Pearl members can accumulate and redeem miles on 6,700 daily flights to nearly 350 destinations in more than 50 countries. The expansion of cooperation between China Southern Airlines and American Airlines will greatly expand the network of airlines in China and the United.

China Southern said that the expansion of the cooperation agreement have great significance: "We are very pleased to continue the communication with American Airlines. The upgraded version of the cooperation will help both parties expand and extend the network and meet the travel needs of passengers through resource sharing. This is a market-oriented, passenger-oriented, complementary and win-win cooperation. The cooperation between the two parties complies with the frequent and close communication needs between China and the United States. And it is also in line with the China Southern's 'customer first' value orientation. " American Airlines said, "We are very pleased with the progress made by China Southern Airlines, the largest airline in Asia. We look forward to further expanding our code sharing based on current achievements. With the use of Beijing Daxing

International Airport in 2019 and our full cooperation with China Southern Airlines, we are excited about the future of American Airlines in the Chinese market."

#### **1.2.3.1.2 Cooperation between China Southern and British Airways**

On December 12, 2017, China Southern Airlines and British Airways officially established a code-sharing partnership, which further improved the route network between the two parties, providing passengers with more flights and destination choices. The UK is an important market for China Southern Airlines and an important part of the "Canton Road". In 2012, China Southern opened a direct flight from Guangzhou to London, providing a convenient choice for business and sightseeing between China and the UK. After more than five years of sailing, it has been welcomed by majority of tourists. In order to meet the needs of passengers, from June 1 2017, China Southern Airlines increased the second Guangzhou-London flights per day. From December 19th 2017, China Southern Airlines passengers can fly from London to Edinburgh, Glasgow, Manchester, Newcastle and Belfast via British Airways flights. British Airways passengers can fly from Pudong or Beijing to Shenyang, Harbin, Changchun and Dalian via China Southern flights. The establishment of the latest partnership between China Southern Airlines and British Airways will further strengthen the global network of the two companies and bring greater convenience to bilateral passengers. With this partnership, China Southern is able to better expand its international business via British Airways' London hub.

#### **1.2.3.1.3 Cooperation between China Southern with Emirates Airlines and Qatar Airways<sup>x xi</sup>**

On January 31, 2019, China Southern Airlines and Emirates signed a code sharing cooperation agreement in Guangzhou. The two parties announced that they will carry out code sharing and business cooperation in other fields to provide passengers with more product choices and seamless travel services. In addition to the Guangzhou-Dubai route, they will launch more code-sharing routes, including flights from Dubai to Cairo, Lagos, Riyadh, Jeddah, Kuwait and Muscat operated by Emirate and some domestic flights from Guangzhou. In the future, the two parties will further connect the route network and cooperate at the customer level to jointly provide passengers with comfortable and convenient global travel services. China Southern Airlines is the first code-sharing partner of Emirates in China. Through cooperation, the two parties will play their respective advantages, improve each other's global route network, and further consolidate the position of global aviation hubs in Guangzhou and Dubai. Global travellers will also benefit more global destinations and caring services from Guangzhou and Dubai by China Southern and Air China.

According to the announcement issued by China Southern Airlines, Qatar Airways bought 8600 A shares and 6,000 H shares of China Southern Airlines in the stock market of Hongkong and Shanghai. Together with the previously held shares, Qatar Airways' shareholding in China Southern Airlines increased to 5%. At the same time, Qatar Airways said it would consider further increasing its stake in China Southern Airlines in the next 12 months. Regarding the increase of Qatar Airways, China Southern expressed gratitude to Qatar Airways for its support, but did not disclose further cooperation intentions.

### **1.2.3.2 Cooperation Significantly influence China Southern within Sky Team**

On July 2017, China Eastern Airlines, Delta Air Lines and Air France-KLM Group jointly announced that China Eastern Airlines and Delta Air Lines will make strategic investments in Air France-KLM Group. China Eastern Airlines will participate in the private placement of Air France-KLM Group with a capital contribution of approximately 375 million euros, holding approximately 10% of the equity of Air France-KLM Group, and assigning one director to Air France-KLM Group. Delta, which has strategically invested in China Eastern Airlines, will also subscribe for the same investment scale. Approximately 10% of the equity of Air France-KLM and one of the directors was appointed to Air France-KLM. With such close relation between China Eastern and Delta airlines, China Southern would face limited cooperation space within Sky Team. At the same time, in the past, the close relationship between China Southern Airlines and Air France-KLM is also likely to produce variables. In the future, the preferred partner of Air France will be China Eastern Airlines instead of China Southern because of the broad economic hinterland and mature business passenger flow of Shanghai.

### **1.3 questions to be solved by the students**

After reading the case, students should answer the questions below:

- Clarify the relationship of different kinds of cooperations of airlines alliance and its practice
- Associated with the Strategy of China Southern Airlines, Compare the strategic position of China Southern airlines in Sky Team and One World Alliance ( what is the influence if China Southern join OW?)
- Associated with Canton route strategy, why China Southern prefers independent bilateral and multilateral cooperation than cooperation within Sky Team alliance



- How will be the airlines alliance enrolled in the future

## **2 Pedagogical Note**

### **2.1 The case's target audience**

The case study lesson is designed for graduate students majoring in Management, Strategy or Business administration and those with Strategic Management course as well as students enrolled in the course of Aviation management.

### **2.2 Educational Objectives**

In general, a case study is a good learning way for students to obtain cognitive knowledge, as well as promote their analyzing and evaluating skills. Based on this, the basically educational objective of the case is to help students understand the knowledge of Strategic alliance.

In details, student should obtain the following information:

Concept of Strategic Alliance, Non-equity alliance, joint venture and their practice in civil aviation industry

Classic theories of choosing strategic partners and associate it with the business strategy

Influence of Strategic alliance in civil aviation industry

Critical thinking of the development of strategic alliance in civil aviation industry

Also, it is important to develop students' skills of analysis and synthesis through breaking down and making up for clues presented in the case. Meanwhile, taking use of their judgement to extract the valuable information for questions independently is an embedded objective. Eventually, students should be able to actively join in the group and class discussion to listen and share ideas with each other, thereby emphasize the new theory on their mind again.

After learning and understanding the Strategic Alliance theory, students are encouraged to practice the theory when they figure out related problems in the realistic situation.

## **2.3 Literature Review**

### **2.3.1 Strategic alliance**

#### **2.3.1.1 What is strategic alliance**

In business, a strategic alliance is an arrangement between two or more independent organizations who decided to work together to undertake a specific, mutually beneficial project. The partners form a competitive advantage by sharing resource, capital, capabilities as well as control, management, and risk of each parties. The common interest-based Sharing would enable companies to access previously unavailable resources and technology, diversify their interests and pursue new opportunities with more speed and lower risk than they acted alone (Karl Morasch,2000). These benefits could help a company develop a more effective process and grow into a new market, or develop an edge over a competitor.

#### **2.3.1.2 Background of strategic alliance**

The classical way of thinking was that firms should attempt to secure SCA on its own (Aaker, 1989). In this line, managers always regarded other companies as competitors only. While the rapid progress of technology and its specialization indicated to firms that collaboration was just not a choice but a necessity. Because technological advances were very significant and companies often discovered it difficult to develop and handle all these technological advances separately (Dicken, 1992). Some companies would lead to one technology set, while another would lead to a distinct technological progress stream so that none of the company be the technology master separately.

At the same time International business also flourished (Dicken, 1992). Companies pursued a rapidly expanding worldwide. Increased stakes resulted in enhanced corporate risk (Das & Teng, 2001). These risks were often caused by growing and changing expectations of stakeholders from various foreign countries Normally the companies did not have enough understanding of external markets and lacked the distribution network necessary for competitor abroad (Carroll, 2004). Thus, after WW II, it became evident to firms that business success was not just about competition but also about collaboration (O'Dwyer&O'Flynn, 2005). Collaboration was creating value for firms quickly across geographies and across industries.

#### **2.3.1.3 Strategic alliance and Joint venture**

A strategic alliance is a collaborative agreement between two or more companies that wish to pursue mutually beneficial goals while remaining completely separated entities. The involved parties in a

strategic alliance do not need to merge capital and can remain independent of one another. And the goal of mission of either business will not be replaced by the alliance.

A joint venture is essentially the same type of entity. The parties involved in a Joint Venture agreement also pool their knowledge, experience, distribution channels and other resource in order to fill gaps in their respective operations like Strategic alliance. But there is one crucial difference: In joint Venture, the two or more businesses partners sign a contractual agreement and thereby create a third, jointly owned company. And this third company has the functions as a separate entity sharing in the profits or losses.

In other words, Strategic alliances do not involve the merging of assets and allows each company to operate separately. The agreement is an alternative to acquisitions and mergers, offering more flexibility than either arrangement because it avoid some of the hindrances that a joint venture would include. While a joint venture is formed by a binding contract. A new entity is formed in the Joint Venture agreement and it would be considered as a separate legal entity. Usually the management team is consist of representatives of all involved parties both for Strategic alliance and joint Venture but with different degree of integration. While both joint venture and strategic alliance are always trying to maximize the benefits and opportunities and limiting risk within the partnership structure.

#### **2.3.1.4 Stage of Strategic alliance**

A strategic partnership involves seven stages: strategy formulation, partner selection, negotiation, design, management, evaluation, and termination. (Phadtare,2011)

Organizations must take several factors into consideration when forming strategic alliances. This includes establishing goals and objectives, vetting partners, and devising a clear plan of action. A strategic partnership advances along the following seven stages from its creation to its potential demise:

- First stage: Strategy formulation. The company must decide what kind of business venture—a merger or acquisition, individual growth, or alliance—provides the best path to attaining its goals. If the company decides on a partnership, it should then form a strategy on how to meet its objectives.
- Second stage: Partner selection. Companies should determine what they need from an alliance, such as technology, capabilities, and capital, and look for a partner who can provide these resources. Companies will narrow down the list of prospective partners through a selection process.

- Third stage: Negotiation. During the process of deal making, organizations must determine if their strategies and goals will align over the period of the agreement. Negotiators must designate each party's contributions, roles, and responsibilities. They must define daily operating processes and related details.
- Fourth stage: Design. Companies decide upon the conditions that govern the alliance, such as contract provisions and management control. Organizations determine what information is appropriate to share, from company culture to intellectual property.
- Fifth stage: Management. This concerns the coordination and execution of day-to-day operating procedures as the alliance takes effect. Companies must focus on monitoring processes and building relationships as they learn to communicate and work together.
- Sixth stage: Evaluation. Organizations develop and implement an appraisal system to determine if the partnership is meeting alliance objectives. Evaluations may be based on individual or joint assessments. They can be used to discern if the partnership's design or management framework should be altered, or if a company should leave the alliance.
- Seventh stage: Termination. Some alliances may last for a set amount of time. This stage allows for the design of a termination plan, which addresses the division of resources and the minimization of losses.

### **2.3.2 Strategic alliance theories**

#### **2.3.2.1 Resource Based View (RBV) (Park, Mezias & Song, 2004)**

Firms are required to be a winner by securing Sustainable Competitive Advantage (SCA) (Reed & DeFillippi, 1990). To secure SCA firms need to develop superior resources, capabilities, competencies and core competencies with respect to competitors from a Resource Based View (RBV). Because firm level resource and capability differences reflect on the differential attainment of competitive advantage at the inter-firm level. then firms should form SAs with other firms that possess superior resources, capabilities and competencies. Firms should form SAs with other firms that can provide Valuable, Rare, In-imitable and Non-substitutable (VRIN) resources and capabilities that are complimentary to the firm's capabilities and superior in nature (Lin & Wu,2014; Park, Mezias& Song, 2004). In other words, through SA firms should seek complimentary VRIN resources and capabilities .This is because VRIN capabilities are sources of SCA and thus if a firm doesn't possess VRIN resources and capabilities then it can form a SA to secure other firms' VRIN resources and capabilities to secure SCA (Park, Mezias& Song, 2004).

Resources have four attributes, and only those that meet these four criteria can be classified as 'resources' from a resource-based view perspective (Barney, 1995).

The four attributes are as follow:

**Valuable:** In this sense, resources with value could help a company gain opportunities and avoid some threats potential. However, this value usually cannot persist perpetual so that constant re-evaluation of the alignment between value and resources is quite important.

**Rare:** If a type of resource is owned by many companies, even if is quite valuable, those companies still have large possibility to create value on customers in the same way. So, resources should be rare for companies' competitors. It is argued that resources that are readily available may be important to a firm's survival but can only contribute to sustained competitive advantage if they are rare.

**Imperfect imitability:** Resources must be hard for other companies to replicate.

**Non-substitutable:** Resources must be impossibly replaced by substitutes to help other companies create a similar value.

Referred to Barney (1995), where resources meet all four of these conditions, then they can be a source of sustained competitive advantage, provided the organization is able to exploit them. Hence, the resource-based view of the firm is based on the premise that firms can achieve sustained competitive advantage if they secure and effectively deploy resources that are not available to, or imitable by, their competitors. In other words, if a useful strategy cannot be employed by any competitors easily, and other companies are difficult to copy the advantages of this strategy, the company itself is considered to achieve sustained competitive advantage.

### **2.3.2.2 Knowledge Based View (KBV) (Mowery, Oxley & Silverman, 1996),**

From a Knowledge Based View (KBV) perspective, firms should form alliances with other partners who possess critical and value generating knowledge resources. So, firms should look out for other firms as partners that are possessing superior technology knowledge base (Mowery, Oxley & Silverman, 1996). The basic tenets of KBV explain that superior firm performance is based upon the possession and application of superior knowledge resources by a firm. In a knowledge-based economy, businesses are driven by technology and knowledge-based business model (Felin & Hesterly, 2007). Thus, knowledge is a critical source of value creation.

### **2.3.2.3 Dynamic Capabilities View (DCV) (Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece & Winter, 2009)**

Capabilities are an important frame for analyzing potency of SA partners. The notion of Dynamic Capabilities View (DCV) required firms to constantly upgrade capabilities such that it is at a superior state than that of the competitors (Wang & Ahmed, 2007). SA based upon Dynamic Capabilities View (DCV) firms should attempt to modify their capabilities by generating new value creating capabilities, reducing certain extant superfluous capabilities and augmenting the level of certain set of capabilities that can be milked (Wang & Ahmed, 2007). Thus, firms according to the tenets of DCV must adapt to a certain set of capabilities or absorb certain others for value realization. Firms should form SA with such partners that are developing, augmenting and nurturing capabilities that would be valuable in future like emergent technology capabilities (Gulati, 1999). It becomes pertinent that SA should be formed with firms (Mowery, Oxley & Silverman, 1996) that are systematically:

### **2.3.3 Challenge and Disadvantages of Strategic Alliance**

Strategic alliances became a dominant way of thinking in strategic management theory and practice. However from the 1970s, A substantial number of SAs were failing. The expectations from SA were far higher than the realities. Many SAs that were supposed to be collaborations for decades were not able to last even a few years (Kale & Anand, 2006). A host of reasons were cited for the failure of SAs.

Cultural mismatch between SA partners were seen as a major reason for post alliance conflict and its subsequent failure (Cullen, Johnson & Sakano, 2000).

Opportunist behavior was also cited as a reason for snapping of SAs unilaterally by partners (Zineldin & Bredenl w, 2003).

Lack of Value adding and envisaging also accounts for the failure of SAs. It was also reported by researchers that many firms entered into SAs with partners that were not possessing any beneficial, value adding or complimentary capabilities, a case reflecting lack of proper due diligence. This reduced the value proposition of SAs (Jiang, Tao & Santoro, 2010). Research indicated that this occurred especially before formation of an alliance there was lack of due diligence (Marks & Mirvis, 2001). Given all these findings it was advised to strategy managers that SAs were not a potent panacea just out there. Researchers advocated that strategy managers when forming SAs needed to envisage and outline the challenges that they would confront in managing the SA and creating value from SA (Carleton & Lineberry, 2004).

Strategic partnerships also come with disadvantages. Disagreements among management can disrupt the coordination of operating procedures and responsibilities. As the companies become tied to one another, they may lose their organizational flexibility. One partner may become dependent on the other, leading to a power imbalance. The companies involved may be unable to pursue other opportunities or alliances that could be more valuable.

### **2.3.4 Strategic alliance in Civil Aviation Industry**

#### **2.3.4.1 Formation of aviation alliance**

The civil aviation industry is full of national strategic characteristics. Its control and ownership are often owned by state capital (state-owned enterprises or domestic consortium invested and subject to state control). (Qiqi.2017) Even in the mature market of air transport, it is still very rare to allow a foreign background capital holding national airlines (there are some expectations in EU).

The integration limitations at capital level have led the cooperation in airline industry to the business level. The emergence and development of the aviation alliance seems to have its contingency, but in reality, it is the necessity of seeking globalization of international route networks for airline companies (Douglas, Ian Tan, David. 2017) While in the past thirty years, building an international aviation hub strategy has been advocated and put into practice by most industry giant airlines. At least one large airline base is required for the formation of huge international aviation hub. Forced by the limitations of the international navigation rights and aircraft restrictions on machine performance parameters, no matter how rich the core resource it

has, none of the airlines can meet the passengers need of get everywhere in the world point by point with direct flight. The broad accessibility and efficient operation of any aviation hub relies on non-based airlines guiding passenger streaming to its own hubs .So, in this circumstance the aviation alliance became a viable solution that can best meet the needs of passengers under the constraints of technology ,cost pressures and resource at the time.(ZhiH.Wang and Michael Evans,2002)

The prototype of the modern aviation alliance can be traced back to the early 1990s. (JAVIER.INSEAD,2004).At that time, US Airways (in Year 2013 it was merged and reorganized by American Airlines. At that time considering of business receipts incoming and passenger traffic volume, it is the world's largest airline) has expanded their network traveling to the Atlantic East coast in London, Paris and Frankfurt from three domestic hubs in united states.

In addition , US airways made acquisition of Trump Shuttle and renamed it as US shuttle. In the international market, US Airways and British Airways have reached a bilateral agreement on comprehensive international business cooperation, through code share ,airport flight coordination and other methods to rapidly improve share of the North Atlantic air transport market for both company. It is the first aviation alliance of US and European airlines in north Atlantic market and it is also the prototype of today's one-world alliance. After that, Delta Airlines and KLM took advantage of these successful practices to create a new alliance to fight against the limelight. This is the prototype of today's Sky Team Alliance.(JAVIER.INSEAD,2004)

#### **2.3.4.2 Practice of aviation alliance**

Aviation alliance usually refers to two or more airlines (Often belong to different countries and have greater competition advantages in their domestic or regional aviation markets) to achieve joint operating interests or weaken the advantages of competitors in the form of a covenant by signing a bilateral or multilateral business cooperation agreement. Looking at the development of aviation alliances, the collaborative value is mainly reflected in the following four aspects.

##### **2.3.4.2.1 Code sharing**

Expanding the network at a low cost and within short period by means of flight code sharing among airlines alliance members. (Klophaus, Richard,2018)

Code sharing means that the flight number of one airline can be used in another airline's flight. Specific to the passengers, the Flight No on their boarding pass is the airlines they paid for the ticket



instead of actual operator airlines. Especially for large aviation alliances with many members, as long as new members join in, in theory, it can access the established alliance route network, and at the same time original members will also share network resources for new members' international and domestic routes. The current three major airline alliances are all Speeding up and growing by code-sharing. This is the most outstanding performance of the alliance synergy value.

Reduce cost by secure resource sharing

Members of the Aviation Alliance have strong and non-reproducible operational and support resource advantages in designated international aviation hubs in their respective countries such as Flight schedules and navigation rights. This is Core resources which can only be transferred by holding capital assets. Also as we know, it is almost impossible to achieve a transnational capitalist. So it is a ideal approach for airline alliance share flight operations and guarantee replacement or unified procurement between member airlines. It does great contribution to reduce the cost on the aspects of flight route development, aircraft maintenance, support of personnel, aviation materials, ground equipment and flight catering

#### **2.3.4.2.2 Coordination of flights through hub airports**

The hub airport's flight coordination can enhance the flexibility and matching of alliance members in flight schedules. It can at maximum reduce the competition within the alliance and shorten the passenger turnaround and waiting time at the hub airport which is convenient for the passengers reach their final destination more efficiently. At the same time, this practice has gradually formed a comparative competitive advantage for alliance members on non-alliance members on the same route, and greatly increase the market share of alliance members without extra input.

#### **2.3.4.2.3 Standardize the service and process within the alliance**

Through the unification and standardization of passenger service within the aviation alliance, it enhanced the ability for passengers on service quality guarantee and marketing competitiveness.

Take the airline's First class and business class products and elite passenger services as an example. There are Significant advantages in the consistency of related services between member airlines which ensure that passengers traveling with different airlines enjoy the same travel experience and attentive service. In addition, in terms of the diversion of elite passengers, the airlines alliance increased its appeal by connection and recognition of royalty program and rewards plan within the

alliance which also helps to reduce the risk of frequent flying passengers buying non-alliance members' competitive products

## **2.4 Methodology**

The research in this case is based on the qualitative methods, which is divided into three stages.

### **2.4.1 Secondary data collection**

Researching amounts of relevant literatures such as books, journals and articles is the basic step. Useful information and data has be extracted from those literatures.

Afterwards, preparing author's own literature review with pedagogical note can be the framework of the case.

### **2.4.2 Semi-structured interview**

A Semi-structured interview has been conducted with some experts in CAAC and employees from different business groups in China Southern Airlines as well some senior media journalists and aviation enthusiast in order to know their opinion on the influence and expectation on the event China Southern Airlines withdraw Sky Team Alliance.

The semi-structured interview is adopted as the method to collect information of the main stakeholders.

The first stakeholders are the internal staffs of China Southern Airlines. The strategy change is significantly associated with their personal development. Two of the interviewers are from Marketing department of China southern Airlines (one is Shenzhen based network specialist and the other one is Shanghai based PR specialists in elite frequent flying passengers areas ) Both of them hold positive attitude to the event China Southern airlines withdraw Sky Team alliance. They believe that leaving Sky Team alliance would give more opportunities to adapting the new development trend in civil aviation industry and make China Southern get more competitive advantages.

The famous influencers FXXIII(with 3million followers ) and XXwuyu(with 5.9 million followers) in Chinese social media Sina WEIBO also shared their opinions on the influence of China Southern

Airlines withdraw sky Team alliance and their expectations on the development trend on airlines alliance in the future.

10 elite members of China southern airlines are enrolled in this interview as frequent flying passengers. Their voices towards this event vary from person to person. Most of them prefer the cooperation with the alliance structure for the convenience of traveling priority. But still half of them held the firm position to be the loyalty members of China Southern in the following year.

### **2.4.3 Data analysis and case study construction**

After all the data of interview are collected and analyzed, considering other interview did by specialist media, the author integrated all useful information and refined pedagogical note.

## **2.5 Case study lecture plan**

Phase 1- Giving the objective of our class is the content of Strategic Alliance

In the beginning, to ask students if anyone know the concept of Strategic alliance or if anyone know the current Top 3 airlines alliance in the world. According to the response from students, professor can extend a little bit into the benefit brought by the airlines alliance. Then, professor begins to explain the whole story of strategic alliance. This phase should cost no more than 10 minutes.

Phase 2- Firstly, professor summarizes the background of the strategic alliance in order to help students understand the development stage at that time. Then, professor should explain the concept of strategic partnership and Joint venture, which are the cornerstones for understanding the concept of Strategic alliance. After that, the concept of strategic alliance will be explained by gradual order. In addition, the professor will introduce the development stage of strategic alliance and its practice in civil aviation industry. Based on the above education, students are likely to have a general idea of strategic alliance and the practice in airlines industry although the impression is still kind of literal. The second phase should cost around 40-50 minutes.

Phase 3- The professor will go into details about strategic partnership theory including the RBV,DCV and KBV. The students would analyze the case and get their personal idea of “how to choose strategic partners” based on these theories. The phase would cost around 25 minutes.

Phase 4- The case of China Southern Withdraw Sky Team alliance should be taken use of after understanding the knowledge Students will be divided into groups with maximum 6 people per group.

Students must answer the questions below the case through group discussion after reading the case. The reading and discussion time should take no more than 50mins. Then, professor encourages each group to give their answers with the analyzing process one by one. If there is any controversy of answers in different groups, the whole class should be involved in the analyzation and figure out the agreed answers. The time spent on phase 3 cannot exceed 2 hours. Phase 4- At last, to sum up the questions' answers is necessary. Meanwhile, professor needs to add the unanswered points and give final conclusion of the case and our course. The total time of phase 4 should be around 20 minutes in maximum.

## **2.6 Lecture issues and Case resolution**

### **2.6.1 Clarify the relationship of different kinds of cooperation of airlines alliance and its practice**

There are three main types of cooperation between airlines. The first kind of cooperation at “basic level” is non-equity alliance which refers that airlines cooperate in specific business areas such as code sharing, lounge access to elite passengers from partner airlines, maintenance and other kinds of resource sharing. The agreement within the Top 3 airlines alliance belongs to this type of Cooperation. The second is “comparative level”. It is the joint venture operation on the certain routes especially the joint venture of cost and profit. The third is "the most advanced" level, equity mergers between airlines.

As we know one of the most important reason for China Southern withdraw Sky Team Alliance is the cooperation they have with other advanced airlines out of the Sky Team Alliance such as equity merge of American Airlines, Emirates airlines and Qatar Airways.

#### **2.6.1.1 Joint Venture**

Joint Venture could be regarded as a very close cooperation between airlines. It enables airlines to reach a binding cooperation agreement on profit and cost sharing on some certain routes. Under the exemption of the Anti-monopoly Act, the two airlines coordinated the navigation rights and flight schedules together to make sure the passengers transfer more smoothly and brought greater benefit to the Frequent Flying passengers of each other, thus making the mutual market share larger and making the competitors out of the joint venture agreement on these route not sustainable or competitive. This cooperation is the most popular form among airlines in recent years. The airline joint venture activities involved in sharing revenue on the cooperative route (and sometimes including cost sharing) was first

established by Northwest Airlines and KLM Royal Dutch Airlines in the early 1990s. Then the joint venture eventually evolved into cooperation between Delta Airlines, Air France-KLM and Alitalia on the North Atlantic routes within the framework of Sky Team. Subsequently, Star Alliance members followed the implementation of the joint venture on “Transatlantic” route. American Airlines, British Airways, Iberia Airlines, Finnair and other members of One World Alliance also joined the North Atlantic route Joint Venture.

From the joint venture of the transatlantic route, the concept of joint Venture spread to the trans-Pacific route and the Eurasian route. For example, American Airlines and Japan Airlines, both of which are One World Alliance members, jointly operated on the US-Japan routes. Air China and Lufthansa Groups (including Lufthansa, Swiss and Austrian Airlines) all of which are Star alliance members, reached a joint venture agreement on Euro-China routes. Air France and KLM, both members of Sky Team, have joint operations with China Southern Airlines and China Eastern Airlines.

We have to notice that, even joint Venture is higher level of cooperation between airlines, some of them are not limited by the alliance framework. For example: Cooperation between Delta Airlines and Virgin Atlantic on Atlantic routes and cooperation between China Eastern Airlines and Japan Airlines and East Asian routes. Through the joint venture, the airlines have effectively promoted the effect of scales, network, cost and management of the partners, and truly created a “three wins” circumstance for both airlines and passengers.

#### **2.6.1.2 Equity investment**

Equity investment is a closer cooperation between the airlines comparing with Joint Venture. In case of increasing financial risk and protect national strategic resource, it is not common to have huge capital acquisitions of national carriers. In November 2018, when China Southern Airlines announced its withdrawal from Sky Team Alliance, Qatar Airways began to concentrate on buying its shares. And the cooperation between the two parties has already emerged. It is bound to enhance their competitiveness in the regional market. In recent years, Qatar Airways has gradually established an “Equity Alliance” that will help its rapid expansion of its international business by acquiring or participating in stake sharing of many foreign airlines in capital markets. By the equity alliance, all parties enrolled are trying to reach a “balanced” ticket price system to maximum the profit.

### **2.6.1.3 Non-equity Cooperation between airlines alliance**

We are already very familiar with Non-equity cooperation within the alliance structure. The beginning of many airline alliances has evolved from a code-sharing network between several airlines. They generally have the following specific cooperation content in the alliance for profit of themselves and convenience for passengers such as shared maintenance facilities, operating equipment, staff, ground lounges, flexible flight reschedule and passengers earning miles with different airlines. We must recognize that most cooperation between airlines are still at the non-equity level “within the alliance framework”. Because the alliance treaty defines the obligations between the members of the alliance and has a comprehensive long-term exclusive binding force for all alliance members. At the same time, the risks and obligations of joining the airlines alliance are much lower than equity investment.

### **2.6.2 Associated with the Strategy of China Southern Airlines, Compare the strategic position of China Southern airlines in Sky Team and One World Alliance. (what is the influence if CS join OW?)**

For Chinese Southern airlines, the strategic position starts to change since its main competitor China Eastern airlines joined the same strategic alliance, even replace the original non-replaced position of China Southern. After China Southern airlines announced to withdraw Sky Team alliance, there is always a voice in the industry that China Southern will join the One World alliance headed by American Airlines. So what is the different position for China Southern in Sky Team and One World Alliance ? And what is the influence if China Southern choose to join the One World Alliance.

Nowadays among the Top 3 airlines alliance, the Star Alliance is still the giant of the of the industry with the most expanded route network, the largest number of destinations, the biggest aircraft fleet, the largest number of members as well as the best cooperation within alliance members. Because of the absorption of Delta Airlines, China Eastern Airlines and China Southern Airlines, Sky Team has made its domestic and international routes in Asia and Pacific areas very developed. The annual passenger traffic ranks the highest among the top three. Although the number of fleets of the One World Alliance is more than that of the Sky Team Alliance, the passenger traffic volume is far less than that of the former. In addition, suffering from the lack of members of the Chinese mainland, One World faces the great resistance to development in this area. When we turn to the data of China Southern Airlines Group (including Xiamen Airlines) in 2016. The annual passenger traffic volume is about 140 million and the number of fleets is 701. It has the most developed route network in China,

with the largest fleet and the largest passenger capacity per year. Also it is well versed in the construction of China's domestic network and Asian regional network. So China Southern Airlines quit from Sky Team may have intentionally or unintentionally opened the curtain of major changes in the global civil aviation market.

#### **2.6.2.1 The benefit for One World Alliance and loss of Sky Team if China Southern join One World**

The scale of Sky Team would drop obviously and the passenger volume of One World would increase rapidly. When China Southern Airlines withdraws from Sky Team, it means that the number of passengers in Sky Team will drop to 590 million, and OW will jump to 660 million. Considering there are lots of destinations in the southern network are repeated with China Eastern, the destination of ST will not be decreased too much. But the number of One World's destinations will jump to a very high level even exceeded the current level of Sky Team. This pattern is enough to break the current order of SA, ST, OW. One World Alliance would be the second largest airlines alliance on net route and scale of Fleet.

There might be a great lost of its capacity on the Australia-New Zealand route for Sky Team. As we all know, Europe-Australia's direct flights are subject to technical and cost issues, the passenger transferring will still be the mainstream in the next 20 years. For a long time, Star Alliance's Singapore Airlines and One World alliance's Cathay Pacific, Qatar Airways, and Malaysia Airlines are the hegemony on this route. With the rapid development of the Canton Route strategy, China Southern Airlines, which has risen rapidly on the Australia-New Zealand route since 2011, has become the only airline of Sky Team that can compete with the senior players. Taking Guangzhou-Sydney Route as an example, China Southern operates 2 to 3 flights operated by A333 or A380 per day, with code share agreement of Sky Team members KLM, Air France, Kenya Airways and Aeroflot. Loss of China Southern Airlines, the only choice for Sky Team in Australia and New Zealand would be China Eastern based in Shanghai . While as the China Southern occupied more than 50% market share between china and Australia, this partner transfer would cause losing more than half destination, obvious drop on flight frequency and capacity. In addition, the transferring time of Shanghai, Taipei or XIAMEN would be much longer than in Guangzhou. In contrast to One World, its member Qantas has deepened its cooperation with China Southern since 2012, including the code sharing of some domestic flights and all China Australian flights departing from Guangzhou. At that time, Qantas even said "My best partner

in China must be located in Guangzhou". Qantas' eager appeal to expand cooperation with China Southern would make One World better further control on this core transit route.

One World would make up the last important piece of the puzzle on his map, a member from the Chinese mainland. For a long time, suffering from the absence of members from Chinese mainland, it is difficult for One World Alliance to get better ground facilities, a wider transit radiation surface and ideal navigation rights and schedules without the assistance of alliance in Chinese mainland airports. Members of OW have publicly stated on many occasions that no mainland Chinese members have greatly affected the business expansion of OW alliance in China. American Airlines is the first to taste the sweetness. With the help of China Southern Airlines, AA replaced Delta Airlines got operating license and obtained the best moment on Los Angeles-Beijing route, as well as more than ten domestic code sharing. Imaging that once China Southern Airlines joined OW, dozens of routes departing from Beijing could be counted as code shared routes. The scale of direct flights in China market of One World Alliance are likely to expand rapidly.

#### **2.6.2.2 The benefit for China Southern to join One World Alliance instead of Sky Team.**

When the Cross-shareholding and acquisition agreement between China Eastern and KLM-Air France took into effect, China Southern has been totally marginalized in Sky Team. Comparing China Southern, Delta Airlines much prefers China Eastern as its ideal strategic partner. Delta has always been inconsistent with China Southern Airlines in Sky Team. So China Southern has to seek Virgin America's code sharing in the United States. Within the Sky Team Alliance, only KLM insists on deepening cooperation with China Southern Airlines, while other core members are marginalizing China Southern. On the other hand, OW is coveted by China Southern Airlines and frequently releases positive signals. For China Southern Airlines, joining One Worlds Alliance would be definitely the core member of the alliance. China Southern would strengthen its cooperation with IAG and Finnair in Europe. American Airlines in US, Qantas in Australia, Latam in South America and Royal Air Maroc in Africa. In addition, it can deepen cooperation with Malaysia Airlines, Japan Airlines, Sri Lanka Airlines and Qatar Airways in the Asia and optimize the Asian Regional Alliance Network.

### **2.3 The influence on regional industry-pattern**

As we mentioned above, the quit of China Southern from Sky team Alliance will cause a Sky Team devastating blow on its kangaroo route and bring much opportunities as well as challenges to itself and the One World alliance. Among all its partners and competitors, two of the industry giant Cathay



pacific airlines and American Airlines are most significant impacted. Both American Airlines and Cathay Pacific Airlines are the founders of One-World Alliance, so both of them play a huge role.

### 2.3.1 Great opportunity for “chasers” on CIno-US Route

For American Airlines, even it is the world's largest airline when measured by fleet size, revenue, scheduled passengers carried, scheduled passenger-kilometers flown, it is still a rookie in the competition in Asia-Pacific area especially on China-US route. Its main competitors Delta Airlines and United Airlines are much more developed in this market. Founder of Star Alliance, United Airlines operates more than 300 flights in 31 countries or regions in the Asia Pacific area to or from the US every week. It is the most widely served US airline in Asia. Also founder of Sky team alliance, Delta airlines focus on the Asian Pacific Market. With deep cooperation with China Eastern and Korean Airlines, it has developed network from its Asian base in Shanghai Pudong, Incheon Seoul and Tokyo Narita International Airports. At the same time, we have to focus on the situation of China Southern, which American Airlines invested as shareholders and regard as the best partner in Chinese market, is as weak as American airlines in Asia Pacific markets. Compared with Air China and China Eastern Airlines, China Southern's North American capacity is only a fraction of theirs. Although AA became the stakeholders of China Southern, this is still the combination between chasers. In order to increase the competitiveness on the China-US route, American Airlines and China Southern have to hold a group to warm up each other. Affected by the Sino-US trade war, after the next round of Sino-US navigation rights negotiations, the competition on these routes will be fiercer. But in the short term, China Southern and American Airlines are still in the position of a chaser.

### **2.6.2.3 reverse the current competition situation and make Great Bay the world aviation hub**

In addition, another industry Giant in Asia-Pacific area is deeply affected by China Southern movement. China Southern Joining One World alliance could be the threaten to Cathay Pacific Airlines or might be a brand new opportunity for both. Assuming that China Southern Airlines has joined One World Alliance, Cathay Pacific will definitely meet great pressure. First, Cathay Pacific's status within the alliance would be weakened and even marginalized. As the fundamental reason for China Southern's marginalization in Sky Team is the participation of China Eastern Airlines. Standing on the aspects of core members of One World like IAG, Qantas, and American Airlines, the benefits brought by China Southern's membership are extremely tempting and they will certainly support a more profitable partner. On the other hand, Cathay Pacific is experiencing the most difficult period of history. It fell into a trap with a lot of tricky problems to be solved such as increasing competition, reduced

passenger flow and net income, high cost, Aging fleet to be replaced, loss in shareholder turnover, credit ratings declining, negative news, and poor alliances relationship. Since 2016, Cathay Pacific airlines suddenly broke the loss. Although the fuel hedging is the most important factor. While in this year, after various reforms, passenger revenue still has no signs of improvement. Even worse, the violent demonstrations in Hong Kong have spread to all walks of life. The number of tourists has been greatly reduced, and Cathay Pacific, which relies on transit passenger flow, has suffered heavy losses. The influence of Cathay Pacific in One World alliance is not as strong as before. It has to be very cautious when it exercise a veto to deny the membership status of China Southern(as a founder of One World alliance , Cathay Pacific has the veto to refuse new membership, and it has exercised the veto on Hainan Airlines and China Eastern when they applied to join One World )

Why Cathay Pacific became less competitive and Unsettled? Since 2008, The flights between China Mainland and Taiwan no longer need to transit through Hong Kong which significantly decrease the passenger volume. The booming of China Southern on Australia and New Zealand route since 2012 and the Free Sky agreement as well as navigation rights releasement between China and Australia which brings a lot of new directly flights between middle sized cities has great impact on Hongkong hub position. China Southern Airlines in Guangzhou launched a large number of cheap international transit routes, and In Shenzhen , government subsidies has become a great motivation for Airline company to launch new routes . In Hongkong Market, Hongkong Airlines and HK Express belonging to HNA group has direct comparison with Cathay on intercontinental and regional routes. In this circumstance, Cathay Pacific Airlines has to decrease the ticket price to face the competition while the high quality of service is at the expense of high cost. While once the quality of service is declined, they will lose favor of elite passengers which are Cathay Pacific always proud of.

While is it possible for Cathay Pacific not vote against China Southern Membership in One World Alliance? The answer is probably YES. Because China Southern's accession is very likely to reverse the current competition situation between China Southern in CAN and Cathay Pacific in HKG, and make Guangdong, Hong Kong and Macau Grand Bay Area become the world's largest aviation hub with the advantage of each other. The distance between HKG(Hongkong) and Can (Guangzhou )is only 150 KMs which is totally different form the situation when Cathay Pacific deny the participation of Hainan Airlines and Chinese Eastern at that time. At first, Hong Kong is a special area which are not controlled by Chinese civil aviation system. Thanks to the free port and Special Administrative Region position, the availability of international navigation rights makes Other cities in Chinese mainland envious. Together with Cathay Pacific's long-term cultivation, its international route is

highly developed. For Cathay Pacific Airlines, even it is backed by the vast market of mainland China and its subsidiary Cathay Dragon Airlines focus on the regional route, it is still not comparable to Guangzhou Based China Southern Airlines on destination and density of Southeast Asian, China Mainland and Africa routes. For China Southern, limited by the extremely scarce international navigation rights of Chinese mainland, as well as the various problems of the Chinese civil aviation system, the density and net profit of its intercontinental routes are far away from Cathay Pacific. While as the biggest airlines in Asian, it has advanced network to connect almost every city in different Tier of the country with most population in the world from its main base Guangzhou. In addition, as the bridgehead of the Road and Belt strategy, Guangzhou's characteristics determine its advantages in the Middle East and Africa routes.

### **2.6.3 Associated with Canton route strategy, why China Southern prefers independent bilateral and multilateral cooperation than cooperation within Sky Team alliance?**

#### **2.6.3.1 The multilateralism and complexity of the aviation alliance Constraining the cooperation in a single regional market**

We take the kangaroo Routes as an example: On the high frequency routes between Europe and Australia, due to aircraft voyage restrictions, there are no direct flights between the two hubs. All airlines operating on this route would have a stop-over. Within Star Alliance, Lufthansa and Singapore Airlines make Singapore as their transfer hub. Similar cooperation has been done by Cathay Pacific and British Airways to make Hongkong the ideal stop-over choice within One World Alliance. In order to enhance its competitiveness in the kangaroo route, Qantas, a member of the One World Alliance, has teamed up with non-alliance member Emirates to develop Dubai into a kangaroo route. The cooperation on this golden route is quite complicated and beyond the alliance structure. Leading by the Canton Route Strategy, China Southern would be definitely one of the main force on these route. And the cooperation within Sky Team structure can not meet the development needs of China Southern. Loss of China Southern for Sky Team means Completely defeated on this competition while for China Southern, there is obvious a better choice.

Southern Airlines issued an announcement at the end of last year: based on the needs of its own development strategy and the new trend of adapting to the global aviation industry cooperation model, it decided to quit Sky Team alliance from January 1, 2019. Members withdraw the airlines alliance also took place in One world Alliance even if they would absorb two new members Royal Air Maroc and Fiji Airways from 2020. Qatar Airways chief executive Akbar Al Baker said in an interview that

Qatar has lost patience with Oneworld and that the company may withdraw from the alliance "very soon." Almost at the same time, One world has confirmed that LATAM will quit as a member carrier "in due course", following Delta's announcement that it will take a major stake in the Latin American carrier. The specific reasons why China Southern Airlines, Qatar Airways and Latam Group are preparing to withdraw from the airlines alliance may be different, but they reflect a serious problem: for airlines, the importance of aviation alliances is diminishing, and bilateral cooperation or multilateral cooperation of airlines More important.

### **2.6.3.2 Unfair competition and Marginalization within Sky Team Alliance**

As we know Profit-seeking of business management determines that the relationship between members of the aviation alliance is relative, loose and dynamic and the aviation alliance's restrictions on its members' behavior are quite limited.

In order to maximum their own interests, with their large-scale and highly qualified "hegemony", giant airlines within the alliance have set up conditions which are beyond their current stage of development for some airlines. With the Sky Team alliance, China Southern has been marginalized by the "giant" Delta airlines. The benefit they get from the cooperation within Sky Team are far away from the investment and contribution to Sky Team. From the aspect of Profit Seeking for a company, withdraw Sky Team seems to be a wise choice.

### **2.6.3.3 Less restrictions and more flexibility without the alliance structure**

Within the alliance, airlines will become partners in a certain market or on a certain route by code and resource sharing as well as coordination of flights through hub airports and Standardize the service and process. However, the cooperation between the members of the alliance is not completely unified. Whether the joint venture or code sharing requires further negotiation by the alliance member. As the major markets become saturated, many members are unable to share the resources of the alliance as they wish, and cooperation within the alliance is not enough.

American Airlines made capital investment on China Southern Airlines and became its overseas strategic partner. On the same day, Cathay Pacific and Lufthansa signed a strategic cooperation agreement to announce that they would implement code sharing on complementary routes. China Southern, Cathay Pacific, Lufthansa and American Airlines Belongs to different alliance but their cooperation are even deepener than the cooperation within the alliance which shows that Less

cooperation restrictions out of the alliance framework would be more complementary and beneficial to the development of individual company.

We can make the conclusion that with the increase of China Southern Airlines' own volume, the benefits brought by the alliance are attenuating. On the contrary, the community with bilateral and multilateral cooperation can bring tangible benefits to China Southern Airlines.

#### **2.6.4 How will be the airlines alliance enrolled in the future**

##### **2.6.4.1 Profit-seeking of business management tends to capital cooperation**

Traditional airline alliance emphasized market, business and brand cooperation. Some airlines within the same alliance also had competitive relationships on some routes. While the equity cooperation emphasizes the sharing of interests and cost. The two parties involved in equity cooperation are consistent in their fundamental interests. Traditional airlines alliance are at the basic level of business cooperation. Profit-seeking of business management decides that this kind of relationship is relative and loose between members of the alliance. And the stability of interest-based cooperation is significantly better than business-based alliance cooperation. So there would be more interest-based alliance in the future instead of traditional business-based alliance.

Because of the typical economies of scale in civil aviation industry, with continuous growing of equity cooperation, there might be several world-class capital-based aviation groups instead of top three airlines alliance.

##### **2.6.4.2 New demand accelerates the direct connection of bilateral pragmatic business**

Subject to the limitations of the aviation alliance, We have to admit that for huge airlines companies, bilateral and multilateral cooperation is deeper and meets the needs of business development. Also comparing with signing an alliance agreement, it is more flexible to start and end a bilateral and multilateral relationship. In the future, It supposed to be more pragmatic, more efficient, and more directly with bilateral Development instead of traditional alliance cooperation

##### **2.6.4.3 The speed of alliance expansion will further decelerate**

The expansion of the alliance has almost stagnated in the past two years. In 2011-2014, Sky Team has absorbed seven airlines. Since then, it has no more new members. Even one of its huge member China Southern will leave Sky Team Since 2020. The situation for Star Alliance is similar. One World is even considering seeking low-cost airlines to join in. The sum of the number of airlines joining and

withdrawing from the three major airline alliances has exceeded the number of airlines in the current alliance, which fully demonstrates that the aviation alliance's restrictions on its members' behavior are quite limited. Considering the limitation of Airlines alliance, the speed of its expansion will further decelerate.

#### **2.6.4.4 Multi-level collaborative development**

Cooperation within airline Alliance and at equity level are different forms of cooperation, with different scope of application. For giant airlines in the industries like China Southern, it supposed to deepen the "most advanced " equity cooperation with its ideal partners, keep the joint venture operations with original Sky Team members. But for "basic " business cooperation, it might be replaceable. While for other regional airlines, it may still rely on the advanced network created by the airlines alliance.

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## End Notes

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