BI Norwegian Business School - campus Oslo

GRA 19502

Master Thesis

Component of continuous assessment: Thesis Master of Science
Final master thesis – Counts 80% of total grade

How have airlines used alliances to internationalise their expansion?

A case study on Norwegian Airlines and Scandinavian Airlines' behaviour.

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Start: 02.03.2018 09.00

Finish: 03.09.2018 12.00

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How have airlines used alliances to internationalise their expansion? A case study on Norwegian Airlines and Scandinavian Airlines' behaviour.

Hand-in date:
03.09.2018

Programme:
Master of Science in Business, Strategy Major

Acknowledgements

A mi padre Rafael Pinto, para cumplir nuestro sueño.
-Emma Rebeca Pinto Guzmán

Special considerations to Maren,
for helping me through tough times during the last two years.
- Dennis Hæhre

Working with this thesis has been both challenging and rewarding, and we would like to express our gratitude towards those who have supported us during the whole process.
A big thanks goes to our supervisor, Debbie Harrison, for her guidance and insights. Her expertise within the strategy field helped tremendously in setting a good foundation for this thesis in a time where we both were uncertain about our goals. We would also like to thank our family, friends, and fellow students for making this process a joy for us.
It would not have been possible without you.

Content

ACKNOWLEDGEMENTS.......... I

CONTENT.......... II

EXECUTIVE SUMMARY.......... IV

INTRODUCTION.......... 1

RESEARCH METHODOLOGY AND METHODS.......... 2

Research Strategy.......... 2
Case Study.......... 2
Data Collection.......... 3
Research Design Criteria.......... 3

RESEARCH ISSUES.......... 5

The Industry.......... 5
Research Statement.......... 5
Research Question.......... 6
Case Selection.......... 6
Agenda.......... 7

INTRODUCTION TO SAS AND NORWEGIAN AIRLINES.......... 8

Norwegian.......... 8
Scandinavian Airlines.......... 9

LITERATURE REVIEW.......... 10

STRATEGIC ALLIANCES.......... 10
Definition.......... 11
Three reasons for entering a Strategic Alliance in the Airlines Industry.......... 12
ALLIANCE PORTFOLIOS.......... 13
THE LEGITIMACY OF STRATEGIC ALLIANCES.......... 15
Why legitimacy?.......... 18
Market legitimacy.......... 19
Relational legitimacy.......... 20
Alliance partner selection.......... 21
INTERNATIONALISATION.......... **ERROR! BOOKMARK NOT DEFINED.**

FINDINGS AND ANALYSIS.......... 30

INTRODUCTION TO CRITERIA'S AND PROPOSITIONS.......... 30

DISCUSSION.......... 42

Propositions *42*
Research statement.. *45*
CONCLUSION **46**
LIMITATIONS AND FUTURE RESEARCH.. **47**
REFERENCES.. **49**
APPENDIX..57

Executive Summary

This final paper proposes a framework which reviews strategic alliances in the context of the Airlines Industry and puts in contrast the two largest Nordic airlines. Strategic alliances, in this sight, are part of the internationalisation strategy of SAS, founding member of Star Alliance, one of the world's largest airline alliances. On the other hand, Norwegian focuses on solo expansion. A literature review on strategic alliances, alliance portfolio, internationalisation and legitimation has been made to set a theoretical background. Specifically, for this analysis, propositions have been discussed to assess what the analysis has proposed to be the advantages or disadvantages of strategic alliances. Finally, conclusions, limitations and future research proposals are presented.

Introduction

Entering the global market and being successful on the endeavour has attracted firm since centuries ago. The opportunities that this entry could bring are yes, tempting, but require a reshuffling of a local company´s strategic position, organisational arranging and goals. There are a few ways to compromise with internationalisation, and for the aim of this paper we have decided to analyse strategic alliances.

Strategic alliances are today an effective vehicle for cross organisational learning, resource and knowledge sharing among partners (Kale et al., 2000; Li et al., 2010). Das and Teng (2000) proposed that the first reason for firms to sign up for an alliance is to obtain valuable resources. For the matter of this paper, the importance of successful alliances is not only to obtain valuable resources but to reinforce and strengthen a valuable position in the international and globalized market of the airlines industry.

All this said, it is natural to understand that the airline industry develops itself in a highly competitive market. These last years it has been shaken by industry wide trends regarding domestic and international expansion. We see airlines tackling these expansions in different ways, some relying on the support of others, either via alliances or code-sharing partners, or by themselves. How do these airlines relate and differ, and what advantages and disadvantages come with their strategic approach?

We will try to answer to these questions comparing two major Nordic airlines: SAS and Norwegian Airlines, each of them with a different business approach regarding partnerships and global positioning.

Research Methodology and Methods

Yin (2009 p. 26) defines research methodology as a "logical plan for getting from here to there, where here may be defined as the initial set of questions to be answered and there is some set of conclusion or answers about these questions". The following part will provide a thorough description of the research strategies performed in this thesis, defined as "a general orientation to the conduct of business research" (Yin, 2009 p. 27) and how the research process has been handled.

Research Strategy

We have chosen to follow a qualitative approach with a comparative analysis on the two airlines, Norwegian and SAS. These are two airline companies with a different strategy regarding alliances, and therefore it would be effective to compare their strategic approach and actions as an analysis on how being in an alliance impact how the firm expands internationally. Since the research question is formulated with "how" have airlines used alliances to internationalise their expansion, the study is characterized to be more explanatory and the use of a case study was the preferred research method (Yin, 2014).

Case Study

As mentioned above, Yin (2014) suggested that "how" questions tend to lead to the use of case study. Hence, following the systematic combination approach, a case study design was chosen and used as a tool to provide the researchers with the empirical findings for this study, and finally turning the case into a product (Dubois & Gadde 2002). Case studies emphasize the rich, real-world context, in which complex phenomena occur (Eisenhardt & Graebner 2007). In the words of Eisenhardt and Graebner (2007), one of the frequent challenges to theory building concerns case selection. For our case, we wanted two or more different airlines who operated international, easily accessible data, and somewhat similar in scale. Additionally, we wanted at least one airline without an alliance and one airline who were a part of an alliance.

That lead us to the airline, Norwegian and SAS. As already mentioned, these airlines differ in what we believe to be critical parts of our analysis yet are similar in scale and operating areas. In Norway, there have been an ongoing discussion regarding Norwegian and SAS for half a decade with both people and news channels comparing them against each other. These comparisons have created a healthy competition setting between the firm, leading to a competition of strategic choices between these airlines.

Data Collection

Data collection in a case study may be conducted from six sources: documentation, archival records, interviews, direct observation, participant-observations and physical artefacts (Yin, 2014). The research of this study is based on qualitative methods and data was collected from observations and secondary data in the form of company documents such as annual reports, progress reports and other internal reports, news articles, PowerPoint slides and literature concerning the topics.

Since our main purpose was to explore the strategic choices of Norwegian and SAS, it was important to find and research documentation on both internal and external operations of both airlines. Fortunately, both airlines are both transparent and forthcoming in their documentation of their operations. From annual reports and quarterly reports, we were able to gather more than we had hoped for in terms of their operations, strategic choices, and positions in the past and for the future. Together with an additional information from other sources available, this lead to our decision to focus on secondary data and exclude any interview plans we initially had.

Research Design Criteria

The quality in qualitative studies should be judged according to the criteria on credibility, transferability, dependability and confirmability to achieve trustworthiness (Guba & Lincoln, 1989). Credibility refers to whether or not the research process is believable. Since our study did consists of secondary sources, and not interviews or other sources where bias and subjectivity can be a problem, and the data we gathered was cross checked with industry figures and standards, we believe we have achieved credibility for our research. All the secondary data we used are available online and may also be used by others to measure the credibility of this thesis.

Transferability refers to whether the findings can be generalized and if the results of the research can be transferred or compared with equivalent studies (Guba & Lincoln, 1989). As this thesis is based on a case study, the concept of transferability is somewhat limited. However, the theories of alliances, internationalisation, and legitimacy of alliances are applicable for other cases in the airline industry, and perhaps other similar industries, therefore, this research is considered somewhat transferable.

In qualitative studies, dependability consists of whether a study is replicable or not (Guba & Lincoln, 1989). For this study, although unlikely, there is no reason for this study not to be replicated as we did not use interviews or other data only available to us. All data that was used are online or at the BI library and available for others to analyse the same way we did.

In order to achieve the highest level of confirmability the researchers cannot let their personal values nor perspectives affect the study conducted. This is made easier when we only used secondary data, as well as we tried to remain as objective as possible when analysing the data. Any instances or situations which may have affected our observations will be discussed in the section of limitations at the end of the thesis.

Research Issues

The Industry

The number of people flying increased by 6.6% in 2017 (Zhang, 2018). The International Air Transport Association (IATA) forecasted global industry net profit to rise to $38.4 billion in 2018, an improvement from the $34.5 billion expected net profit in 2017.

An increased demand, efficiency and easiness in interest payments have assisted airlines in improving net profitability in 2018 notwithstanding increased price competition and rising costs.

IATA's CEO and Director General, Alexandre de Juniac stated that "These are good times for the global air transport industry. Safety performance is solid. We have a clear strategy that is delivering results on environmental performance. More people than ever are traveling. Employment is growing. More routes are being opened. Airlines are achieving sustainable levels of profitability" (IATA, 2017).

We decided to write our master thesis focusing on the airlines industry because of its importance globally and its increasing strategic planning.

It also fits our research proposal, being that alliances and partnerships are fairly common in the airline industry. Additionally, we have seen an increased focus on internationalisation in the last years in this industry, and the importance of serving an international market has become critical for the success for airlines. In our study, we would like to analyse how the firms expand, and whether an alliance makes this process more successful or not.

Research Statement

In this thesis we will put in contrast Scandinavian Airlines (SAS) and Norwegian Airlines, while exploring the similarities and differences in their selection of an internationalisation mode. We aim to gain insight on why each of them selected expansion against strategic alliances by assessing their performance, their footprint, and other criteria found along the research together with theory on the matter.

Research Question

We decided to conduct a qualitative study, therefore it was natural for us to choose a research question that could be answered with qualitative investigation and analysis.
Our focus was to find a research question that was broad enough for us to build a vast and diverse analysis on our chosen airlines yet narrow enough to be able to focus on a specific area to write this thesis.

After carefully considering the industry and its characteristics, the data available and the theoretical background, we have articulated the following research question:

How have airlines used alliances to internationalise their expansion? A case study on Norwegian Airlines and Scandinavian Airlines' behaviour.

Case Selection

The aim of this final paper is to evaluate how strategic alliances support internationalisation in the airlines industry and how it could or not facilitate performance. It is well known that partnerships are present in a vast number of industries, but engaging in strategic alliances has been an observable phenomena in this one in particular; Oneworld, SkyTeam and Star Alliance are the three largest alliances in the world and they have been around for a long time.
There is enough public and reliable data in order to give us ground for conducting comparisons with confidence.
Furthermore, being based in Norway while writing this paper has allowed us to look closely at Norwegian Airlines and SAS, two Nordic players in the industry that have well defined and different strategic positions regarding internationalisation and expansion, characteristics that will suit our goal to compare both modes in the airlines industry.

Agenda

The agenda for this thesis is to first introduce the topic of research and explain the relevant theories. The formulations of the research question and the background for choosing the specific case was introduced in the above sections. The next part regarding the methodology will explain the methods used to conduct this business research. Part 3 will be a literature review, where we will discuss what we believe to be the relevant theories and literature to provide an applicable foundation to analyse our research question. The literature review will be based on four main areas. First, we will review literature on strategic alliances, and then more specifically, strategic alliances for the airline industry. Second, we will go through previous research related to internationalisation. Third, we look at relevant theories regarding the field of alliance portfolio. Lastly, we have decided to include a review of literature on the legitimacy of strategic alliances. When looking at our research question, we believe that we need to review theories and literature from all these different fields in order to analyse the question in the best way.

Part 4 will present our propositions and a set of criteria's that we will use to compare the airlines in our case. This chapter provides a thorough overview of the similarities and differences of the airlines, and the results of their strategic approach. We have included a table at the start of the chapter to give a good summary of the criteria's and how the airlines compare, before we give an explanation of each of the criteria for both of the airline's point of view.

Before we move on to the discussion and conclusion of the paper, we have included a part 5 with more theoretical background, more specifically the legitimacy of alliances. In order to fully discuss our finding, it became apparent that we needed to research on the legitimacy of alliances as some of our findings were inconclusive without a full understanding of the advantages an alliance brings.

The last two parts in the thesis are the discussion and conclusion of this thesis. The discussion is derived from the findings from all of the research, matched with the findings from our analysis of the airlines. The chapter will evaluate the case against our research question by revisiting our propositions introduced later. The conclusion will be based on this discussion, summarizing the key findings and contributions of the thesis.

Introduction to SAS and Norwegian Airlines

For this thesis we will focus on two successful and international airlines, Norwegian and SAS, with a different strategic approach. Norwegian is known as a low-cost carrier, an airline focusing on low fares accompanied by a scarce offer. These airlines sacrifice some of the comfort of their passengers to be able to offer low fares, targeting customers who wants to fly as cheap as possible. SAS on the other hand is a full-service carrier (FSC), an airline that focuses on providing a wide range of pre-flight and onboard services, including different service classes, and connecting flights. FSCs offers domestic, regional and intercontinental passenger services, often from a hub located in the home territory and providing a network of air services across the globe (Airport Council International, 2015). We will now present a short profile on both of these airlines.

Norwegian

Norwegian Air Shuttle ASA were founded in 1993. By the fall of 2002, Norwegian Air Shuttle had acquired several Boeing 737-300 aircraft, and started to challenge SAS Braathen's monopoly by offering low fares on domestic routes (Norwegian, 2018e). Norwegian delivered its first profitable year in 2005, an achievement that commenced the successful period of rapid expansion from 2005 and until today (Norwegian, 2018c). As part of the company's expansion plans, Norwegian established a Polish subsidiary with two planes stationed at the Warsaw base in 2006 (Norwegian, 2018c). Norwegian's fleet consists of around 150 aircrafts. With an average fleet age of just 3.9 years, Norwegian has one of the youngest and greenest fleets in the world (Planespotters, 2018a). New aircraft are win-win for the passenger's comfort, wallet, the environment and the company's costs.

Norwegian Air Shuttle is guided by its vision; “Everyone should afford to fly”. In short, the company's primary objective is to give as many people as possible the opportunity to travel by air, and to offer a high-quality travel experience at low fares. Moreover, their business and behaviour are affected by three corporate values; simplicity, directness and relevance; as well as three operational priorities; safety, service and simplicity (Norwegian 2018a). According to its website, Norwegian Air Shuttle's business strategy is twofold. The company aims to become the preferred supplier of air travel in its selected markets, and to generate excellent profitability and return to its shareholders (Norwegian, 2018e).

Scandinavian Airlines

SAS is an abbreviation of the previous name of the airline Scandinavian Airlines System, also legally known as Scandinavian Airlines System Denmark-Norway-Sweden.

As its name suggests, SAS is the flag carrier of Sweden, Norway and Denmark, constituting mainland Scandinavia. SAS was Northern Europe's largest airline by total scheduled and chartered passengers until 2017 when it was outperformed by Norwegian Airlines (CAPA, 2018).

It was founded on August 1st, 1946 as a conglomerate to conjunct the transatlantic operations of Svensk Interkontinental Lufttrafik, Det Norske Luftfartselskap, and Det Danske Luftfartselskab. The consortium was extended to cover European and domestic cooperation two years later. In 1951, all the airlines were merged to create SAS. SAS has been described as "an icon of Norwegian–Swedish–Danish cooperation" (Aftenposten, 2018).

Its operations are divided into three operational segments: Scandinavian Airlines, providing air transportation services to destinations with passenger flows within Scandinavia as well as internationally; Blue1, providing air transportation services with main market in Finland and an additional traffic to the rest of Europe, and Wideroe, providing air transportation services with main market in Norway, and operating regional traffic with a proportion of procurement traffic, mainly in northern Norway. It is also active through SAS Ground Handling, which handles passenger and lounge services, as well as loading and unloading, deicing and towage of aircraft, among others; SAS Cargo Group, which provides postal and air freight services to, from and within Scandinavia; and Cimber A/S, engaged in the production of smaller aircrafts (Reuters, 2018).

SAS is headquartered at the SAS Frösundavik Office Building in Stockholm, Sweden. The airline operates 152 aircrafts with more than 800 daily flights to 123 destinations in Scandinavia, Europe, the U.S. and Asia.
Along with an extensive loyalty program, EuroBonus, SAS offers a wide range of innovative travel solutions in order to make customers' travel as time efficient and smooth as possible. SAS wants to make life easier for Scandinavia's frequent travellers and has the intention to be one of the leading players in the airline industry in the area of business and product innovation and environmental adaptation of operations (SAS Annual Report 2017, 2018).
SAS is also one of the founding members of the world's largest alliance, Star Alliance. In 2017, SAS carried 28.37 million passengers. (CAPA, 2018)

Literature Review

Strategic Alliances

For Hoffmann (2007) and Hagedoorn & Osborn (1997) interorganisational relationships like alliances and networks are an increasingly important source of competitive advantage. He has conceptualized alliance portfolios as all the alliances that a focal firm has with other firms. In his work, he also recognizes that goal-oriented management of a company´s alliance portfolio plays a crucial role in its performance, therefore its configuration and development have become important strategic matters.

We could use Eisenhardt & Schoonhoven's work (1996) to confirm that firms enter various cooperative interorganisational ties like joint ventures and alliances to increase their resource endowment and hedge against uncertainty better than their rivals.
Because of this, many entities have opted to enter a thick network of interorganisational relationships with other players, customers, suppliers, etc (Brandenburger & Nalebuff, 1996).

It could be discussed that, the mode in which the focal firm is positioned inside these relationships (or not) gives or takes away its competitiveness (Gulati, 1998, 1999). As said earlier, interorganisational relationships are therefore documented as a progressively imperative cause of competitive advantage and superior performance (Dyer & Singh, 1998). Consequently, we could say that belonging and shaping an alliance has become an important strategic issue for firms playing in a network intensive industry.

Definition

Strategic alliances can be defined as “purposive strategic relationships between independent firms that share compatible goals, strive for mutual benefits, and acknowledge a high level of mutual dependence” (Mohr & Spekman, 1994). Gulati (1995) stated that an alliance is “any independently initiated interfirm link that involves exchange, sharing, or co-development”. Strategic alliances are voluntary cooperative inter-firm agreements aimed at achieving competitive advantage for the partners (Das & Teng, 2000).

Strategic alliances bring together otherwise independent and sometimes competing firms to share resources in different stages of their value chain. Making an alliance allows a firm to focus their own resources on its main activities, core skills and competencies while acquiring other components or capabilities it lacks (Chan et al., 1997).

Alliances can take many forms, ranging from simple contracts with no equity ties, partnerships, to more formal agreements involving equity rights and shared managerial control over collective activities. These alliances and the network organisations they forge are becoming increasingly crucial as harder competitive conditions require firms to adopt flexible and more focused organisational structures (Chan et al., 1997). Strategic considerations involve using alliances to enhance a firm’s competitive position through market power or efficiency (Kogut, 1988a).

If we watch an alliance from where a focal company is standing, considering all alliances that the subject company has, we would be looking at an alliance portfolio.

Gomes-Casseres stated at Harvard that in order to achieve higher results, firms usually can't depend in single high profile alliances. A well structured alliance portfolio is a needed strategy that gives access to key external resources by the means of coordinated alliances. For this company, a single alliance is not as relevant as the bundle of them for reaching its strategic goals, putting this issue of the whole alliance portfolio in the spotlight.
The steps made in order to enter an alliance are, according to Gulati (1998) the decision to enter an alliance, the choice of an appropriate partner, the choice of structure for the alliance, and the dynamic evolution of the alliance as the relationship develops over time.

Three reasons for entering a Strategic Alliance in the Airlines Industry

In the airline industry, strategic alliances are characterized by joint, dedicated marketing entities for network-wide cooperation (Fan et al. 2001). Recognition for mutual flyer program, shared lounges, extensive code-sharing, coordinated schedule and fare planning are features of strategic airline alliances with a goal of delivering a seamless travel experience across the entire alliance network. For instance, all members of the Star Alliance know one another's frequent flyer programs, and many of them cooperate through code-sharing.

A firm could enter an alliance for several reasons, but we will present three of them that are related to the industry we are studying from Hoffmann (2007).

The first is a Shaping strategy. When the strategic intention is to advance new resources and capabilities and exploring new opportunities, Hoffmann called this type of alliance as "core exploration alliances". In this case, there is a higher risk and foreseeing the expected outcome could seem distant (Koza & Lewin, 1998). Related to the airlines industry, we could see the example of each of them entering and belonging to worldwide alliances to essentially improve product lines and service offerings for new customer demands, like seamless global travelling.

Secondly the Adapting strategy. If a company decides to enter an alliance to react to upcoming or developing environmental dynamics, this adaptation could be made with an alliance, by increasing the resource base and ensuring flexibility without making high and irreversible investments. For airlines, engaging with local partner could be used as an explorative step in entering a new market.

Lastly the Stabilizing strategy. Once the alliance has reached a point where it can be exploited, resources and capabilities can be now leveraged from to attain a sustained and efficient appropriation of established competitive advantages from other partners. An example of how market circumstances can be stabilized are collusion agreements among rivals.
However, it is remarkable that alliances could be using one or more of the aforementioned strategies. We have reasons to believe that airline alliances belong to this kind of hybrid strategy that compensates the trade-off present in exploration and exploitation and gives the possibility to companies to shape, act and adapt when new opportunities, resources and capabilities come in the way.

Since firms are then engaging in multiple alliances, it is argued that the configuration of its alliance portfolio seems to be a key driver for its performance (Castro & Roldán, 2015; Lavie & Miller, 2008).

Alliance Portfolios

We have reasons to believe that alliance portfolios are omnipresent and significant for firm performance. Das and Teng (2000) define a portfolio as an egocentric network, as a firm's set of direct ties. They also have found that managers are more likely to create high performing portfolios when they position their portfolios in the context of the entire industry as opposed to a series of unique and unrelated ties and when they form ties with multiple associates at the same time. Just as it happens when an airline enters an alliance like Oneworld, Star Alliance or Skyteam.

These same ties enable leaders to put their attention on their strengths, while taking advantage of their partners' resources and market positions.

For Uzzi (1997), portfolios are important because they have particular aggregate properties like tie assortment and a variety of tie strengths that affect performance but are not important for single ties. So, even though a single tie could be useful, a firm´s portfolio is more prone to be crucial to the firm´s performance, putting portfolios at the heart of strategic planning.

Managers who can picture their portfolios in the whole framework of their entire industry are more likely to originate high performing portfolios. Having a complete view of the portfolio in an entire industry allows firms to add several ties simultaneously (notably not a series of single ties) that enhances the firm´s value for potential partnerships and the operating synergies they could get from them. This is due to the possibility of understanding interdependencies among the firms, control uncertainties and locate unconnected firms.
High performing portfolios are also related to the crucial logic of simultaneous multiple ties. Aggregating such ties at once multiplies the value of a firm for its latent partners past of what the firms brings alone. Thus, the focal firm is itself able to attract other firms, motivate new ties and gain advantage over competitors that would rely only on their own sources. Operating synergies are then enabled once ties are closed. Firms can therefore synchronize and reinforce their tie formation by creating finely executed industry structures, coordinating activities to launch new products (or routes in the airlines case) and putting together information to work out industry uncertainties. On the opposite site, it could be said that firms that are only able to sum single ties offer less worth for potential associations than rivals who have themselves other partners and arrange operating collaborations.

Moreover, a consolidated partnership with strong structures could turn ordinary or beginner partners into highly central, prominent and valuable associates. This could be the case for Norwegian, as it was for SAS being a founder member of Star Alliance.
Furthermore, Ozcan and Eisenhardt (2009) argued that a “unique industry structure is not only a portfolio strategy. It is also a competitive strategy, especially in highly networked industries”, like the airlines industry.

They stated that a coordinating strategy is also effective because “it enables firms to take long jumps to other regions of their industry”, crucial for airlines performance.
In addition, they developed three strategies that could be useful to identify a successful alliance portfolio:
(1) advocate a unique industry architecture that proactively shapes the industry,
(2) take long jumps that exploit opportunities to coordinate unconnected, often distant firms, and
(3) defend against emerging industry uncertainties as they occur.

From these conditions we could say that belonging to a good performing portfolio means combining dynamic forethought, acing opportunities, take advantage of new partnerships and have a defensive positioning.
So many aspects of the composition of an alliance portfolio and its evolution have been analysed, a few are nationality (Goerzen & Beamish, 2005; Lavie & Miller, 2008), tie strength, exploration/exploitation goals (Dittrich, Duysters, & de Man, 2007; Lavie, Kang, & Rosenkopf, 2011) and legitimacy. We will now explain this last one further.

The Legitimacy of Strategic Alliances

Even though it is known that strategic alliances are carried out in order to achieve resource sharing, competency development and competitive advantages, the value related to its economic and strategic significance has been overlooked (Dacin, Oliver & Roy, 2007). Because of the social and transactional nature of alliances, we consider of special relevance to examine legitimacy within an alliance framework as a specific benefit of alliance formation.

Legitimacy has a crucial position in the process of gaining critical resources by firms, these include technology, economic and social capital, markets, customers and partners. (Aldrich & Fiol, 1994; Zucker, 1987). Strategic alliances, as previously mentioned in this paper, have grown in popularity and their formation has seen an attention increase because of their functions and advantages (Dyer, Kale, & Singh, 2001).

Engaging in alliances means the capturing and sharing of risks and a wide set of tangible and intangible resources such as individual skills, knowledge, networks, etc. (Dacin, Oliver & Roy, 2007). Among other key advantages we could also mention new markets' entry (Garcia-Canal et al., 2002), an enhanced market power (Eisenhardt & Schoonhoven, 1996; Kogut, 1988b), economies of scope and scale (Contractor & Lorange, 1988; Mohr & Spekman, 1994), strategic renewal (Borys & Jemison, 1989), risk and investment sharing (Anderson, 1990; Ring & Van de Ven, 1992), and the acquisition of institutional legitimacy (Baum & Oliver, 1991).

It is important to be reminded about the symbolic, signalling and social characteristics that alliances hold, that could perfectly serve as a source of legitimacy for partnering firms, and that the same yielded legitimacy is a strategic resource with the potential to create relevant economic and competitive benefits for the involved firms. This is why, according to our analysis and previous literature, firms will have a reason to achieve legitimacy.
Furthermore, for Dacin, Oliver and Roy (2007) legitimacy will serve as means to achieve competitive or technical ends rather than an end in itself in firms' decisions to establish alliances.

Strategic alliances and legitimacy: Basic definitions
Strategic alliances are frequently seen as short or long term relations of a voluntary nature that involve two or more organisations in relevant areas of activity or competencies such as market entry, skill acquisition or capabilities exchanges in which both parties will set predictable conducts ex ante by means of mutual moderation and formally specified contractual mechanisms like licenses, outsourcing agreements, joint manufacturing agreements (Buckley & Casson, 1988; Gulati, 1998).

Legitimation is defined as the social justification of an actor or activity, such that the actor or activity is publicly validated or endorsed (Perrow, 1961). This process of social authentication is related to the appreciation of a distinctive competency or position owned by an organisation providing a service or a product. Selznick

(1957) argued that an organisation and its management will aim to market its competency to meaningful constituents and it is transacted or exchanged between parties (Pfeffer & Salancik, 1978)

For Suchman (1995 p. 574), legitimacy is a general recognition or assumption that the actions and outcomes of an entity are "desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions." The need for legitimacy depends a lot on the context of the organisation and the relevant characteristics of it (Dacin, Oliver & Roy, 2007). The way in which legitimacy can be observed varies among companies and it is granted through social validation.

We should remark that legitimacy is a distinct but close concept from reputation and prestige. The first has been defined as the affective estimation of a firm by its constituents (Fombrun, 1996 p. 37), and the second refers to the achievement of a positive public image that involves recognition of characteristic competencies or roles of the aforementioned organisation (Perrow, 1961 p. 335).

It is indeed also worth noticing that legitimacy goes further than the previous concepts, as it has to do with the extent to which a company's organisation, arrangements and actions conform with social norms, rules, values and overall expectations on the firm's economic and social context. Thus, we could actually identify a strategic and an institutional approach to legitimacy in strategic alliances formation.

According to DiMaggio and Powell (1983) and Scott (1995), well known Institutionalists, organisational actions are executed with a social justification. In other words, organisational players have the desire to give their actions a meaningful and believable explanation.
Therefore, from this standpoint we could say that strategic activities such as alliance formation can be socially and normatively defined because the motives behind them are driven by a relevant actor's search for legitimation and social accountability. These actions' effectiveness will then be judged by a range of stakeholders (like shareholders, customers, partners, governments) who will

evaluate the appropriateness and legitimacy of the mentioned strategic activity from their own perspective (Dacin, Oliver & Roy, 2007).

Continuing with Institutional Theory, it could be argued that strategic and economic activities are carried out in a social context, which is also normative, that could motivate actors to thrive for the approval of their decisions, specially that one coming from constituents with which there is some kind of physical, human, reputational or financial dependency. (Amburgey, Dacin, & Singh, 1996; Oliver, 1996).

There are technical benefits attached to the capacity to meet this specific legitimacy needs, like partnering with high quality constituents, increased access to markets and the ability to attract better resources. Therefore, legitimation could be considered as important means by which these technical benefits can be realized, and alliance performance can be enhanced. This will drive firms to acquire and maintain legitimacy and at the same time they will be able to obtain access to strategic and technical benefits such as back up and key resources from critical actors (Dacin, Oliver & Roy, 2007).

The effort a firm will exert to establish and maintain interorganisational ties with legitimate actors and institutions with substantial reputations and social status can provide a number of organisational benefits and can result in economic and competitive advantage gains (Dacin, Oliver & Roy, 2007; Podolny, 1994; Pollock, Gulati, & Sadler, 2002).

Why legitimacy?

According to Wiewel and Hunter (1985) the increase of legitimacy and longevity is a function of a new organisation's ability to create partnerships and connections with reputable constituents. Here, legitimacy has proven to be an efficient way to maintain relationships with loyal customers.

Then, we could argue that the legitimacy between firms' relations can directly influence alliance performance as the performance of the same firms by generating a net of support inside the interorganisational ties and improving the

firm's reputation, increasing the firm's chance to survive and its ability to secure critical resources and strategic advantages (Dacin, Oliver & Roy, 2007).
Dacin, Oliver and Roy (2007) have classified several types of legitimacy depending on the type of legitimacy needed and the particular characteristics of the firm, goals and context to which a company belongs.

We have decided to include in this final work two types: Market legitimacy and relational legitimacy. In the following lines we will shortly describe them and link them to our observations following Dacin, Oliver and Roy (2007).

Market legitimacy

A company may pursue entering into an alliance in order to create, develop or keep up with its rights and qualifications to operate in a specific market. When a firm wishes to participate or maintain its presence in a market, it will look for an alliance with an already legitimate entity to confirm endorsement and accessibility to other players like customers, suppliers and the government. There is also need for legitimacy when the firm lacks the inherent characteristics that are relevant for the target's market. These could be listed as experience, positive reputation, success, or government approval in the market. This has been defined as liability of foreignness and it is a barrier to overcome as new firms try to enter new markets (Zaheer, 1995; Zaheer & Mosakowski, 1997).

In this case, Dacin, Oliver and Roy (2007) have made a proposal:
"A firm will be more likely to enter a strategic alliance to gain market legitimacy when (a) market entry and existence depend on the authority and endorsement of governments and other key actors, and (b) the firm lacks market experience and a positive reputation within that market."
The greater market legitimacy a firm has, the more access to new geographical and product markets and thus to more resources and competencies that would be impossible to reach otherwise. This then, increases the potential for higher firm performance.

Relational legitimacy

Relational legitimacy has been perceived as the worthiness of a firm as an attractive alliance partner. Firms enter alliances and secure them in order to improve their relational legitimacy, or how worthy is a firm to be perceived as an attractive alliance partner.

In Child and Faulkner's research in 1998, firms confirmed that having a collaborative pool of expertise and resources can reduce risk and increase firm performance in a way that competition or direct confrontation could not. There was also an increase in the competition for worthy partners. The pool of high quality alliance partners is not infinite, especially in such a challenging industry as the airlines is. Firms will be attractive depending on their perceived complementarity in sharing skills, expertise, or know how in the activity or area related to the alliance, their reliability, experience, referrals and integrity.

Firms that need to develop additional interorganisational ties will have to develop their worthiness to be associated with, their relational legitimacy, that will in turn be regulated by the intensity of competition for relevant partners, the firm's alliance antecedents, image and the degree of how essential is for the firm to attract alliance partners to achieve its goals and objectives in the future.

On this hand, Dacin, Oliver and Roy (2007) stated that:
"A firm will be more likely to enter a strategic alliance to gain relational legitimacy when (a) competition for attractive partners is intense, (b) there is a necessity for additional future ties, and (c) the focal firm lacks a positive alliance history or a positive reputation as a partner".
Firms that are able to increase their relational legitimacy are bound to find higher quality partners, thus gaining access to valued expertise, reducing transaction costs from less trustworthy partnerships, thereby increasing the alliance's performance and, as this occurs this also increases its chances of forming advantageous alliances in the future, enhancing the firm's future competitive potential.

Alliance partner selection

All this said, it is almost natural to imply that a firm's selection of an appropriate alliance partner is a crucial strategic decision and process (Hitt et al., 1995).
A strategic alliance's combination of skills, knowledge and resources, policies, operations and procedures, risks and institutional changes are some of the conditions determined by partner selection.

Firms that succeed in increasing their relational legitimacy are able to attract high-quality partners, which increases the focal firm's access to valued expertise in other firms and reduces the transaction costs of dealing with less legitimate and less trustworthy partners, thereby increasing the efficiency of alliance performance and the opportunity to increase market share through use of the competencies possessed by the partnering firm. As a firm forms ties with high-quality partners, this also increases its chances of forming advantageous alliances in the future, thus enhancing the firm's future competitive potential.

In conclusion, legitimacy gained through the membership in a strategic alliance can have a key role on a firm's economic and competitive success.
Firms that do not enjoy of legitimacy could be refrained of entering crucial markets, getting government clearance or sharing risks and costs, lacking customer loyalty among other downsides, consequently endangering the potential for competitive advantage.
Our paper, hence, claims that the legitimating function of strategic alliances may be a critical source of competitive advantage in the case of airlines, and more specifically, the benefit that SAS could have over Norwegian Airlines.

Internationalisation

Most researchers have described internationalisation as the outward movement in a firm's international operations (Turnbull, 1987). However, a general agreement on the definition of this concept is yet to be made. Wind et al. (1973) consider internationalisation as a process where specific attitudes or "orientations" are associated with successive stages in the evolution of international operations.

Welch and Luostarinen (1988) suggested a broader definition with the inclusion of both sides of the process, inward and outward. They described it as "Internationalisation is the process of increasing involvement in international operations". Calof and Beamish (1995) suggested the following definition of internationalisation: "The process of adapting firms' operations (strategy, structure, resources, etc.) to international environments".

Later Beamish et al. (1997) defined internationalisation as "the process by which firms increase their awareness of the influence of international activities on their future and establish and conduct transactions with firms from other countries". Other researchers have interpreted internationalisation as a sequential and orderly process of increased international involvement and the associated changes in organisational forms (Reid, 1981).

Building on a better understanding of the field we will take a look at internationalisation from different theories and with different perspectives in mind; industrial organisation theory, oligopolistic behaviour theory, life cycle theory, risk diversification, sequential processes, localisation theory, transaction cost theory, institutional theory. Concluding this listing, we will try to reflect on which of these theories that are most relevant for our case.

Industrial organisation theories:

As explained by Hymer's theory (1960), both ownership and competitive advantages constitute in themselves an incentive for international expansion of a company. These advantages can be derived from economies of scale, product differentiation or cost advantages. We also see additional benefits from economies of scale and density thanks to the formation of alliances. Caves (1971), while acknowledging the existence of ownership advantages and their status as a public asset, emphasized the role of product differentiation as an advantage that multinationals have over local competitors is his argumentation for internationalisation through industrial organisation theory.

Oligopolistic behaviour theory:

Oligopolistic behaviour theory aims to explain not only why airlines internationalise, but also how they achieve it. Studies regarding oligopolistic behaviour in the airline industry have been in two directions. How airlines imitate the price strategies of their rivals (Pitfield, 2005), and how rivals imitate the behaviour of the leader in the expansion phase with respect to technological improvements, such as investing in distribution channels (Abernathy & Utterback, 1978).

Life cycle theory:

Bjelicic (2004) analysed the development of airlines and how the industry is in regard to the product life cycle. He argued that the airline industry is in a mature phase. New competitors are emerging with substitute products, generating fierce competition in terms of the pricing of their products and services, seeking lower production costs by applying innovation and re-engineered processes to airline services.

Risk diversification:

Risk diversification has always formed part of the growth strategy of airlines. According to Rugman (1981), internationalisation facilitates risk diversification as it means that a company is not dependent on a sole market for its survival.

Internationalisation as a sequential process:

Internationalisation as a sequential process was first developed by Johanson and Vahlne (1977) in their "Uppsala model". They argued that the internationalisation of companies occurs gradually, first with a residual presence in the form of exports, which increases through the creation of affiliates or own distribution and production plants. For the airline industry, there is often a sequential process from operating international routes through code sharing or slot leasing, to extending their operations to new projects, routes, acquiring foreign carriers and establishing a hub on foreign soil.

Localisation theory:

Barba Navaretti and Venables (2004) argued for the importance of localisation by focusing on two different motives, either market seeking or resource seeking, depending on the individual multinational involved. The difference between the two is either foreign direct investment in search of domestic or regional markets, or foreign direct investment exploiting cost advantages, as labour costs for instance.

Transaction cost theory:

Internalisation and transaction cost theory (Anderson & Gatignon, 1986) is based on the existence of market imperfections that act as barriers to free trade and can create an incentive for foreign direct investment. Regarding the airline industry, there are different factors included in the transaction cost theory framework present (Shane, 1994). Quality control, whether an airline is autonomy or adaptability of to changes in demand and, in general, the airline's ability to reduce uncertainty across customer groups, would all be the internalization advantages that explain expansion according to the transaction cost theory.

Institutional theory:

Internationalisation may also be influenced by external factors embedded in the institutional theory (Gomes-Cásseres, 1989). The differences between the regulatory environments of countries and the role of the institutional environment can influence the international expansion of airlines. The positioning of an airline depends may depend more on where it is allowed to establish a base, rather than where it would like to operate from.

For our case, the industrial organisation theory is helpful when analysing the pattern of Norwegian's expansion strategy, focusing on cost advantages through economies of scales and product differentiations. For airlines economies of scales is very much related to their fleet, as a bigger fleet will help the airline utilize their staff and routes offering. Another factor is the age of the fleet, as we see with

Norwegian in particular, which results in lower fuel consumption which can result in a cost advantage for Norwegian compared to other airlines. Product differentiation has also been a focus for both SAS and Norwegian, as we see that SAS has achieved a broad product differentiation through an alliance, and on the other hand we have Norwegian who has been continuously expanding in Europe and other countries themselves. Regarding SAS, industrial organisation theory argues for economies of scale and product differentiation through alliances as a means to achieve cost advantages.

Additionally, the life cycle theory helps us better understand the market. SAS is one of oldest and most traditional airlines in both their approach and strategy, Norwegian entered a much more mature market. Consequently, Norwegian felt the need to do things differently, and took on a more direct and unconventional strategy by not entering an alliance and expanding rapidly, both regarding their fleet and the number of routes they offer.

OLI Framework

An important theory regarding internationalisation is Dunning's (1981) OLI framework. Dunning contends that firms choose to internationalise because they can leverage a combination of ownership, location, and internalization advantages (OLI). Using this framework to discover the specific advantages for the firm, it will select a form of entry in accordance with its strengths. In order to better understand the OLI framework, we will go through the different advantages.

Ownership:

Ownership advantages can be specific tangible or intangible assets that constitute a competitive advantage enjoyed by a firm. For airline companies it can relate to their reputation, economies of scale, leadership, and capital and ownership structure. According to a study done by Lawton (2002), low fare airlines enjoy a favourable reputation in general. Early movers in the low fare airline business subsequently benefit from their longer standing and the associated accumulation of credibility. However, airlines established later may be able to benefit from positive externalities of these pioneers. Economies of size provide competitive advantage for low fare airlines because they are able to benefit from decreasing unit cost, especially for marketing as the number of destinations served increases (Hanlon, 1999), also known as economies of market presence.

A further form of ownership advantage can be seen in low fare airlines' capital and ownership structures. Autonomous, publicly listed companies benefit from direct access to capital markets and thus possess considerable leverage in their financing decisions in a relatively capital-intensive industry (Hanlon, 1999). The presence of charismatic and entrepreneurial leader personalities in the low fare airline business can be a further competitive asset and can constitute an ownership advantage for the airline.

Location:

Dunning (1993) identified two main groups of location advantages for service firms, tradability and the regulatory environment of the host country. Regarding tradability, airline services are bound to their production equipment and link locations. However, secondary airports that meet the technical, geographical, and financial requirements of low fare airlines, and at the same time charge lower fees than more congested primary airports, can be found (Albers et al., 2010).

Location advantages can also influence the way an airline enters international markets. Albers et al. (2010) also supported the notion that the choice of location is mainly determined by market potential and the degree of competition or rivalry in that market. For instance, low fare airlines typically internationalise into markets that offer substantial growth opportunities and have few competitors. In the early stages of firms' development, European low fare airlines avoided direct route-based competition (Heuermann, 2005).

Internationalisation:

Regarding internationalisation from the OLI framework, one of the most important advantage for an airline is quality control, and specifically the ability to reduce customer uncertainty concerning the service offering. As argued by Stinchcombe (1984) quality control can be attained through appropriate cooperation. Further, another advantage regarding internationalisation lies in the area of process control. This relates to the design and implementation of operational processes that influences the efficiency of the suppliers, such as the quick turnaround times for an aircraft

To gain advantage from internalization, quality and process control is important. When firms engage in foreign direct investment, especially the establishment of foreign bases, acquisitions, and the creation of subsidiaries, all decisions, routines and procedures relating to control and operations are expanded or duplicated. Lastly, an internalization advantage which is seldom realizable through contractual modes of cooperation, is the adaptability advantage of hierarchies. After all, mutual adjustment processes aimed at reaching a consensus among still autonomous firms take more time than flat-based decision processes in integrated companies (Albers, 2005).

In line with Dunning's (1981) reasoning and the specification of OLI advantages, he argues that FDI and export are the most important mechanisms for internationalisation because of their leverage over ownership. Albers et al. (2010) found in their analysis that the internationalisation patterns reflect the individual airlines' calculus of internationalisation advantages, available financial resources, organisational structure, as well as the importance of the timing of market entry in comparison to competitors (first mover advantage). First mover advantages that also result in positive repercussions for ownership effects may be substantial, given the importance of cooperative internationalisation mechanisms to the growing of an airline's business.

In the past, internationalisation was usually depicted as a gradual, incremental process (Bartlett & Ghoshal, 1989). A problem of the stage models is that these assume a considerable span of time through which a firm can gain experience, accumulate resources, and develop managerial capabilities required for international operations. Traditional internationalisation theories focused mainly on large multinational corporations, and were less pertinent to smaller firms (Dana, Etemad & Wright, 1999a, b). Those who wished to avoid uncertainties and the inherent unknowns of competing in foreign markets, could simply keep their firms small and local, thus refraining from expanding internationally. With the liberalization of trade, however, small firms are threatened by international competitors penetrating formerly protected domestic markets.

The globalization of markets (Levitt, 1983), however, and of competition (Ohmae, 1989, 1990) is constraining the ability of small firms to control their own development paths. When the financial consequence of high start-up costs, small domestic market size, and shortened product life-cycle combines, firms may have no choice but to become "instant internationals" in order to survive (Knight & Cavusgil, 1996; Oviatt & McDougall, 1999). As pointed out by Oviatt and McDougall (1996), the ability to act on opportunities, in more than one country, is not limited to large companies. Reynolds (1997) confirmed that the recent expansion of markets has not been associated with an expanded role for larger firms. Instead, smaller businesses are becoming niche players (Buckley, 1997). Additionally, Bonaccorsi (1992) and Dana and Etemad (1995), explained how small firms can rely on larger ones to facilitate internationalisation activities; through this "scaling up" process, smaller firms can leverage their network resources to shorten the time span and reduce the cost and risk of their internationalisation.

Internationalisation can be perceived as a part of the ongoing strategy process of most business firms (Melin 1992). The main differences between internationalisation and other types of strategy processes (or growth strategies) can be found in the following dimensions: First, the firm transfers products, services or resources across national boundaries. This implies that the firm has to select in which country the transactions should be performed. Second, the firm has to select the international exchange transaction modality, that is, a foreign market entry strategy. These two dimensions - international market selection and choice of entry mode - represent the key strategic decisions in connection to a firm's internationalisation (Bradley 1995).

Acs and Yeung (1999) argues for co-dependent relationships, a relationship of symbiotic interdependence, as a consequence of the recent evolution of networking. In the airline industry, such relationships have become very common, as small airlines provide elements of the value chain to larger firms, by way of sub-contracting or franchising (Dana 2001). Sub-contracting involves an agreement in which one company contracts a specific segment of its business operations to another firm, allowing each firm to focus on its competitive advantage, and to leverage the core competency of the other. Long haul carriers rely on the services of small-scale carriers, with smaller aircraft, to access and service niche markets in which the smaller carriers are more efficient. Significant cost reductions are achieved through the use of more specialized aircraft. The small carrier may have added cost advantages of not being unionized, and of having a more community-focused corporate culture. As an integral part of an international network, smaller carriers can focus on specialized services and avoid scale-dependent operations, this is to the mutual advantage of both parties (Dana 2001).

Participation in other companies is taking several forms, from integration through the acquisition of 100% of a company's equity, to space allocation agreements for the purchase of a part of the company. Zhang (2005) and Alamdari and Mason (2006) predict that the number of airlines in both the traditional and low-cost segments will diminish as a result of these actions to guarantee the survival of companies in the highly competitive markets place. Aside from expanding their area of activity and enjoying wider economies of market presence, airlines also are investing in other companies seeking economies of scale, reduced competition, cost saving from operational synergies and adding diversity to their portfolio of services the to meet periods of financial instability (Assaf, 2009). Vertical internationalisation is, though, a less popular option with intermediaries in auxiliary services being replaced by independent companies. Even the global distribution or reservations systems that were traditionally managed by the airlines have now become independent entities.

Findings and Analysis

Introduction to criteria's and propositions

In order to further strengthen our analysis, we have gathered information on SAS and Norwegian in regard to different criteria, which we feel will help us compare their differences and similarities. Furthermore, this analysis will give us a closer look at an airline in an alliance and an airline not in alliance, and by comparing them in these criteria's, we feel this will give a better understanding of how the airlines conduct their strategy, both in the present and how they have made it where they are today.

In addition, we prepared a set of propositions of what we believed to be some of the key differences between an airline belonging or not to an alliance. We will revisit these propositions in the end of our analysis and see whether our initial thoughts were on to something, and further discuss these propositions.

1. Norwegian will own a bigger fleet than SAS, as an airline without an alliance cannot benefit from code-sharing and cooperation with other airlines.
2. SAS will have a shorter average flight distance, as airlines in alliances usually cooperates with the longer flights
3. Norwegian will have more HUBs around the world (not including Star Alliance) than SAS.
4. SAS will offer more destinations and to more countries than Norwegian
5. SAS will have higher brand awareness than Norwegian.

Below we have presented a table to outline our findings regarding the criteria we set up. Following we have a brief explanation of each finding in regard to Norwegian and SAS.

Table 1. Criteria for Norwegian and SAS

Criteria	Norwegian	SAS
Number of HUBS	23 in 13 countries	7 in 3 countries
How many countries to they fly in	151 destinations in 31 countries	123 destinations in 30+ countries
Average route distance	1 607 km	951 km
Intercontinental destinations	37 Destinations	11 Destinations
How fast do they enter a new market	Rapidly	Steadily
Fleet size	144 planes, 66 owned	158 planes, 43 owned
Customer service (reputation)	Medium, based on our analysis	Good, based on our analysis
Reward programme	7 million	5 million
Domestic vs International operating revenue	47,5% domestic to 52,5% international	25% domestic to 75% international
Punctuality	Around 75%	Around 86%
Number of total passengers per year	33.1 million passengers	30 million passengers
Load factor	87,5%	75,3%
Notable awards	Multiple	Multiple
Reputation	Based on Skytrax customer review - 6/10	Based on Skytrax customer review - 5/10
Brand awareness	Brand Finance, rank 31	Brand Finance, rank 49 (SAS only)

Source: Team Analysis

- How many countries do they operate in Hubs

Norwegian has 23 operational bases in 13 different countries, Norway, Sweden, Denmark, Finland, United Kingdom, Ireland, Spain, Thailand, United States, Italy, Netherlands, France, and French Caribbean (Norwegian 2018a). Since Norwegian is an airline operating without cooperation in an alliance, there is bigger need for operational bases. Norwegian are not able to rely on a network in the same way as other alliance airlines, therefore they have worked consistently with establishing bases in different countries and continents, in order to provide their customers with more routes to more varied locations all around the globe. Norwegian have been establishing bases in different countries and continents as a way to continuously expand their operations and securing new markets independently from a network.

SAS's main hub is at Copenhagen-Kastrup Airport, with connections to over 50 cities in Europe. Stockholm-Arlanda Airport (with more than 30 European connections) and Oslo Airport, Gardermoen are the other major hubs. Minor hubs also exist at Bergen Airport, Flesland, Göteborg Landvetter Airport, Stavanger

Airport, Sola and Trondheim Airport, Værnes (Scandinavian Airlines, 2018b). We have chosen to exclude the major Star Alliance hubs, as they belong to fellow members.

- How many countries do they fly in Destinations

Norwegian offers over 500 routes to over 150 destinations in 31 different countries all around the world (Norwegian 2018a). Only a handful of these countries lies outside of Europe, as Norwegian operates mostly in Europe. Even though Norwegian has worked tirelessly to expand their operations, they still have big markets outside of Europe they have yet to explore. Whether this is difficult for Norwegian as they are not in an alliance with other international airlines, which can help you take advantage of markets far from home, or this is a result of prioritizing increasing their market share in Europe before they take on new markets is still unclear. However, there is no denial that Norwegian wants to expand more outside of Europe, as evidence from establishing bases in North and South America, and Asia (The Guardian, 2018).

Excluding code sharing through Star Alliance, SAS offers 272 routes in over 123 destinations in over 30 countries (Scandinavian Airlines, 2018a). Almost all of these destinations are in Europe, as SAS utilizes Star Alliance for their flights out of Europe. Therefore, the number of countries SAS offers to their customers is much more than what they actually fly to themselves. Membership in Star Alliance provides SAS's customers with access to a far-reaching network, as Star Alliance offers flights to 1 321 destinations in 193 countries around the world (Scandinavian Airlines 2018b). SAS uses their resources mostly for continental flights and takes advantage of the broad network for most of their intercontinental flights.

- Average route distance

Norwegian:
Average route distance, or average sector length more commonly used in relations to airlines. For Norwegian, average sector length was 1 607 kilometres (Norwegian 2018b)
SAS:

Average flight distance 951 kilometres (Statista, 2018a). As mentioned in the previous paragraph, SAS uses their own resources for shorter flights in Scandinavia and Europe, while using their network through Star Alliance for longer flights.

This is one of the categories that highlights the difference between Norwegian and SAS and their international operations. We see that Norwegian does offer and operate more long-distance flights than SAS, as they do not have a network or code sharing partners to cooperate with. Since SAS does exactly that, they have chosen to fly shorter and more frequent flights with their resources and rely on the other members of Star Alliance for their long-distance operations. Consequently, Norwegian has to build a broader and more diverse fleet, with a mix of long distance and short distance routes and establishing intercontinental bases. SAS have instead a more focused fleet, with more short distance routes and a high frequency.

- Number of intercontinental destinations.

As per their latest annual report, Norwegian offers 37 intercontinental destinations (Norwegian 2018a). Compared to SAS they offer over three times the number of intercontinental destinations. Norwegian wants to expand internationally, and they want to grow beyond Europe. However, since they are not in an alliance they have to branch out to new markets themselves. This means establishing hubs and allocating resources to operate long distance routes.

SAS offers 11 intercontinental destinations, under one third of Norwegian's amount (Scandinavian Airlines, 2018c). SAS wants to prioritize their fleet for flights in Scandinavia and Europe, and as a consequence they choose to not operate more long-distance flights. This is being made possible because of their membership in Star Alliance, as they can benefit from the broad network of their fellow members to supply them with support for their long-distance routes. So, while SAS offers their customers a number of long distance destinations, they only operate parts of the routes, and uses their network to carry the passengers the rest of the way, an option Norwegian currently do not have.

- How fast do they enter a new market?

Norwegian has been known to enter new markets rather quickly by industry standards. They opened their base at Gatwick, London, in 2013 (Norwegian 2018e), and have since flown more than 2 million passengers from the airport. By analysing their established bases around the world, we see that just in the past 13 years, they have established themselves with 23 operational bases in 13 different countries, showing their eagerness and fast paced expansion plans. Norwegian's strategy for the past 10 or so years have been acquiring new aircrafts and applying for licensing to enter new markets. Since 2013 they have operated routes into Southeast Asia, but have been trying for recent years to enter the entirety of the Asia market, but are still having trouble getting rights to fly overflying flights in the trans-Siberian air sector by Russia (The Guardian, 2018). They first entered the US market in 2013, and just before they received their first Boeing Dreamliner aircrafts and they have been expanding rapidly, now offering 14 different routes to the US (Norwegian 2018e).

SAS have been around since 1946 and have had a much more slow and steady growth into new markets compared to what Norwegian has been doing for the past 13 years. Additionally, SAS have chosen to focus on the Scandinavian Market and their success there. As said in their Fact Book for 2016/2017 "Our principal focus in on customers that begin or end their journeys in Scandinavia". Together with their involvement with Star Alliance since its foundation SAS have not had the same need to expand to other markets with any pace. Instead they have looked to their alliance for support in foreign markets, and then slowly expanded there themselves after seeing a growing demand from their customers. For instance, in 2011 when the demand for direct flights to New York became increasingly popular, SAS were first to open up a direct flight to New York from Oslo, over a year before Norwegian followed in their steps (Din side, 2011). Later, we see that Norwegian has opened up a wide range of destinations in the US, 14 compared to SAS's 7 destinations.

- Number of carriers owned by the airline

Norwegian operated at year end 2017 144 planes, where 66 of these planes are owned by Norwegian Airlines, and the rest is leased (Norwegian 2018b).

Norwegian has prioritized growing their fleet in the past years, which has resulted in an attractive and the youngest fleets among their peers, an average fleet age of 3.9 years (Planespotters 2018a). This young fleet also result in Norwegian having the highest fuel efficiency of the top 20 airlines on transatlantic routes (Norwegian 2018b). Consequently, Norwegian operates with continuing to operate with new aircraft enables Norwegian to offer more competitive fares than the competition and grow its market share. According to their own reports, Norwegian plans to increase their fleet to 225 planes by the end of 2020, with 152 owned planes. This investment made by Norwegian is highly sought after in the industry, and something that bodes well for the future of Norwegian.

SAS operated 158 planes during 2017. Of these 158 planes SAS owns 43 of these planes and lease the remaining 115 planes. SAS still operate a bigger fleet than Norwegian, but this may change come the future, as Norwegian has made substantial fleet investments. Whereas Norwegian has a young fleet, SAS operate an older and more established fleet with an average fleet age of 10 years (Planespotters, 2018b). While this is not a big problem yet, it may prove difficult for SAS to keep their costs down with an increasingly old fleet.

- Customer service

When looking at customer service for Norwegian, the first thing we analyse is their rating on TripAdvisor. We see that Norwegian has been rated over 14 thousand times by different users, and they have an average score of 3,5 out of 5 (TripAdvisor, 2018a). Regarding customer service alone, they have the same rating, 3,5. When we look at all airlines rated on TripAdvisor, we have a total of 569 airlines, where 192 of these airlines have a higher rank than Norwegian. It is apparent that Norwegian does not score high when it comes to customer service and experiences. Comparing it to SAS, which has a score of 4,0 and an equal 4,0 in customer service, Norwegian is rated lower by the customers. However, when we take a look at the other notable low-cost carriers in the industry, Ryanair and EasyJet, they have the same total and customer service rating as Norwegian. Hence, while Norwegian does score low on these rankings, so does the other low-cost carriers, which is to be expected as the low-cost carriers sacrifice the customer experience in order to offer low fares.

SAS works actively to develop and improve its customer offering at every stage of the journey. Passengers of SAS value easier and more time-efficient travel, from the actual booking to arrival at the end destination. When looking at how they are perceived at TripAdvisor, SAS has been rated over 6 thousand times by different users and have a total score of 4,0 with an equal score of 4,0 regarding customer service (TripAdvisor, 2018b). From a total of 569 airlines, SAS is number 77. When comparing that to the score previously discussed by Norwegian, we see that SAS scores higher than Norwegian when it comes to customer service.

- Reward program

Norwegian launched it frequent flyer program Norwegian Reward in 2007 and have around 7 million members (Norwegian, 2018b). One of the typical characteristics of low cost carriers is the lack of a reward program, however, Norwegian has been trying to bridge the gap between low cost carriers and full-service carriers by offering their customers a similar reward program. While Norwegian Reward has been growing since its beginning, and have been appreciated by its members, it still lacks in comparison to the reward programs you may find at the airline alliances. Especially when one takes into considerations the international benefits of an alliance reward program, as Norwegian Reward is most beneficial to residents in Norway. Nevertheless, the Norwegian Reward program has helped them close the gap to SAS, their biggest competitor in Norway, and the program itself was awarded Program of The Year in Europe by Freddie Awards in 2017 (Norwegian, 2018d).

SAS launched their Eurobonus loyalty program in 1992 and have today over 5 million members (Scandinavian Airlines, 2018a). Eurobonus is today Scandinavia's largest travel related loyalty program, as Norwegian Reward and other loyalty programs cover much more than just airline activities. SAS Eurobonus is widely recognized for its perks and benefits it provides the customers, one of the main drawing points is the connection to Star Alliance. Membership in any of the loyalty programs tied to Star Alliance gives full access to the whole Star Alliance network. This gives SAS Eurobonus members a big advantage, as they can use their "points" or status within the program on the whole Star Alliance network, giving the members possibilities all around the world.

- Operating Revenue, International vs Domestic

Norwegian collects more operating revenue from international customers than domestic customers (Norwegian, 2018a). This is a great sign for a healthy and growing airline, who has been very clear about their ambitions internationally. However, the operating income is about 10.5 billion NOK from international customers versus 9.5 billion NOK from national customers. So, while this is promising, it is still very much balanced equally between the two customers segments.

SAS collects around 75% of their operating revenue from international passengers, and 25% from domestic passengers (Scandinavian Airlines, 2018b). With a total operating revenue of close to 40 billion NOK we see that they have almost equal share of operating revenue from domestic passengers, but SAS collect about three times the revenue from international passengers. This is to be expected as SAS is a more established airline and gain a lot of brand recognition and customers through Star Alliance from markets outside of Scandinavia.

- Punctuality

For any airline punctuality is a vital part of their reputation. Norwegian been notoriously known for having a lower percentage of punctuality than other airlines in the Norwegian market. From Norwegian's annual report for 2017 we see that they had a punctuality around 76% throughout 2017, their lowest percentage since 2008, while the highest they have achieved was around 87% throughout 2012 (Norwegian, 2018a). This punctuality is on the lower end compared to other competitors (Statista, 2018b). Furthermore, from data collected by "Transportklagenemda", the Norwegian transport appeal board, Norwegian received 305 complaints in 2017, which is approximately four times as many as SAS (E24, 2018).

In 2017 SAS 's punctuality totalled 83,6%, which makes them the sixth most punctual airline in Europe for the 2017 calendar year (Scandinavian Airlines, 2018a). This was SAS lowest percentage for the last 9 years, as they have been regularly been around 87-90%. While Norwegian attracted more than 300 complaints last year, those filed against SAS amounted to 66, down from 77 the year before when it was hit by a strike by Swedish pilots. Norwegian has already been hit by another 61 complaints filed with the commission this year, compared to 36 filed against SAS (E24, 2018).

- How many passengers they fly a year

Norwegian had a total of 33.1 million passengers in 2017, an increase from 29.3 million from the past year (Norwegian, 2018a). Norwegian has seen a steady increase in passengers every year, which can be attributed to their aggressive expansion policy they have had since their early days.

SAS flew 30 million passengers in 2017, a slight increase with respect to the 2016 figures of 29 million (Scandinavian Airlines, 2018a). However, SAS have had around the same number of passengers since 2013, where they achieved their highest figure yet with 30.4 million passengers.

- Load factor (load capacity)

Load factor describes the utilization of the available seats on a flight. For 2017 Norwegian had a total load factor of 87,5% compared to 87,7% and 86,2% for 2016 and 2015 respectively (Norwegian, 2018a). The International Air Transport Association (IATA) reported that airlines sustained a record high load factor for 2016, exceeding 81% on average (IATA, 2018). This means that Norwegian has achieved above average load factor, a healthy sign of sustainability in the airline industry.

In 2017 SAS reported a Load factor of 75.3%, compared to 2016 74.5% (Scandinavian Airlines, 2018a). This is notable worse than Norwegian, as well as below industry average. While this mostly affects the bottom line of the company, traveling with empty seats, this can be seen positive by some customers. While low cost airlines, especially, tend to overbook their flights, leaving customers on standby tickets or having to keep paid customers off the plane in some instances, SAS does not tend to do this as much, leaving more empty seats on their flights but the morale of their customers higher.

- Notable Awards

The Skytrax World Airline Awards is described as the most prestigious award in the airline industry. It is the passengers who give their verdict of 200 airlines worldwide. Norwegian has won five Skytrax awards since 2012, including "Best Low-Cost Airline in Europe" three years in a row and "World's Best Low-Cost Long-Haul Airline" (Norwegian, 2018d). Another award that has become renowned in the industry is the Passenger Choice Awards, as winners are chosen based on customer feedback. Norwegian has won seven Passenger Choice Awards since 2012.

While SAS have won a number of awards in regard to their punctuality, customer service and overall airline, SAS have not won much in recent years (Scandinavian Airlines, 2018d). SAS was awarded "Europe's Best Airline" by Grand Travel for 2014 and 2015 as the most notable awards in recent years. However, Star Alliance have won "Best Airline Alliance" for the last two years by Skytrax and is widely recognized as one of the best airline alliances in the industry (Star Alliance, 2018).

- Reputation

Much like the criteria regarding customer service, Norwegian is known as a low-cost carrier, and with that comes a certain reputation. They have an average to below average reputation among airlines. From SkyTrax own sites, one of the most renowned airline sites in the industry, Norwegian have a rating of 6/10 from customer reviews (Skytrax, 2018a). These rating are compiled by five categories, Food & Beverage, Inflight Entertainment, Seat Comfort, Staff Service, and Value for money. Not surprisingly Norwegian scores high on value for money but are rated on a 2/5 in the other four categories. From this, and the aforementioned ratings on TripAdvisor, it is clear that Norwegian do no boast a very positive reputation among the customers. They are recognized for their value for money, but the customers are aware that is about all that Norwegian offers compared to the other airlines in the industry.

For SAS a big part of their reputation will be from their membership in Star Alliance, however, we will try to analyse the reputation of SAS exclusively. As we did for Norwegian, we take a look at the customer reviews from Skytrax and analyse how these customers perceive SAS. Here, SAS scores a 5/10 based on the customer reviews (Skytrax, 2018b). Whereas from TripAdvisor, it was clear that SAS had a better customer service that Norwegian, we see that the value for money is what brings Norwegian ahead of SAS regarding the reputation from the customers. Again, this is without taking Star Alliance into considerations.

- Brand Awareness

Thanks to Norwegian's disruptive strategy towards the industry, and their unorthodox approach they have gained a lot of brand awareness. Norwegian came at the industry with full force and gained attention by some of the industry's biggest actors, for instance The Wall Street Journal did an extensive article on Norwegian and their CEO Bjørn Kjos in late 2013 (The Wall Street Journal, 2013). However, Norwegian themselves did not prioritize marketing their brand outside of Scandinavia before mid-2014, when they launched their first campaign focusing on the UK, the Nordics, North America, and Germany (Campaign, 2014). In late 2017 Norwegian partnered up with LoopMe and launched an advertising campaign in the US using artificial intelligence, which resulted in boosting brand awareness for Norwegian by 94% in the US (Adweek, 2017). Still, following a recent study done by Brand Finance analysing the biggest brands in the airline industry, Norwegian is ranked as number 31, showing that their brand still has a lot of potential (Brand Finance, 2018a). Brand Finance calculates brand value using “the Royalty Relief methodology which determines the value a company would be willing to pay to license its brand as if it did not own it. This approach involves estimating the future revenue attributable to a brand and calculating a royalty rate that would be charged for the use of the brand” (Brand Finance, 2018b).

Regarding SAS, we see from Brand Finance's yearly ranking of the biggest brands in the airline industry that SAS is listed at 49 (Brand Finance, 2018a). This is without taking the Star Alliance brand into considerations. For SAS there is not a big of a need to be a hugely recognized brand, as they can rely on the stature of

Star Alliance, in a way that Norwegian cannot. However, SAS have seen a decrease in their market share in the last 10 years, from 34% down to 31% percent last year (Scandinavian Airlines, 2018a). Further enhancing the notion that SAS's brand awareness is not where is should be and have perhaps not been prioritized in the last years.

Some of the main differences we see between Norwegian and SAS are due to their strategic approach. The fact that Norwegian operates as a low-cost airline, and SAS themselves are a full-service carrier. Low cost airlines score typically high on load factor as they tend to overbook their flights more frequently to maximize their earnings, often at the expense of their reputation. This holds true in our case, as we found Norwegian to score both higher on load factor and lower on customer service than SAS. Norwegian have at times been identified with a bad reputation, and still is to some extent, as evident by their high number of complaints compared to SAS. Yet, as a low-cost carrier, this is somewhat expected since they can offer lower prices than their competitors. For SAS, it is clear that they wish to maintain their reputation as reliable for all their customers, resulting in lower seat optimization on their flights, but fewer complaints and a higher punctuality.

After analysing both Norwegian and SAS we see that there is a clear difference in regard to their long-distance operations. For Norwegian, there have been a clear emphasis on establishing bases and operating long distance routes. On the other side, SAS have not been prioritizing this as much, and have instead focused on optimizing their operations in Europe, and Scandinavia primarily. However, despite Norwegian’s efforts, there is still a difference in their operating revenue from international customers. This has been an area of importance for Norwegian, but it remains to see if they are able to increase their market share internationally without the help of an alliance.

Lastly, we tried to analyse the brand awareness for both Norwegian and SAS. We feel this is an important area for both airlines, but it is evident that Norwegian is both prioritizing it more and in turn has more brand awareness than SAS. However, by only analysing Norwegian versus SAS we are not looking at the whole scenario, since a lot of SAS’s brand awareness lies in their connection to

Star Alliance, and with that connection brand awareness is perhaps not that big of a need.

While we have found key differences regarding both Norwegian and SAS's strategic approach both in overall and when it comes to internationalisation, we still believe there is a need to analyse the legitimacy of a strategic alliance. There are areas we feel SAS have chosen to not prioritize as highly as they perhaps should, and we feel that the reason for that are the benefits and possibilities Star Alliance provides them. Therefore, we decided to do an analysis on the legitimacy of strategic alliances and then we will tie that into our findings. With that in mind, we feel we can better conclude our findings and the strategic approach of SAS.

Discussion

In this part, the summarized theoretical framework will be discussed along with the aforementioned propositions and findings regarding our criteria for the airlines. We will first discuss our propositions one by one, and how they contribute to our research problem. Then, we will conclude this part by discussing these findings in conjunction with our research question.

Propositions

1. *Norwegian will own a bigger fleet than SAS, as an airline without an alliance cannot benefit from code-sharing and cooperation with other airlines.*

While we knew that SAS was a much more established airline compared to Norwegian, and how hard it is to operate a big fleet, we were curious as to whether Norwegian and their aggressive expansion strategy would have seen them with a bigger fleet than SAS. This was not the case. SAS do still operate a bigger fleet than Norwegian, but it is close. As of last year, Norwegian owned more planes than SAS, and have more orders for the coming years than SAS, which will eventually see them end up with a bigger fleet.

In regard to our research problem, it was interesting to see whether or not these airlines were similar in this category or if one of the airlines operated a much higher fleet than the other. For the airline industry, the size of the fleet is often synonymous with how global and international their operations are.

2. *SAS will have a shorter average flight distance, as airlines in alliances usually cooperates with the longer flights.*

As mentioned in the criteria's part, this is one the areas we thought we would see the biggest difference between the airlines. One of the main advantages of being in an alliance is the opportunity to use the network provided by the alliance for longer flights, and thus allocate their own resources to focus on shorter and direct routes. For this proposition, our initial thoughts were accurate, and we see that Norwegian had a much longer average flight distance compared to SAS.

We see that a big difference in how these airlines have expanded internationally is due to the fact that SAS have been able to provide their customer long distance flights with the help of Star Alliance, when Norwegian have not had that opportunity. Consequently, Norwegian have had to prioritize acquiring rights to fly in international markets, in some cases a tedious task, in order to expand to new markets. For instance, as previously mentioned, Norwegian have still not been granted the right to fly over the trans-Siberian air sector for their flight to Asia (The Guardian, 2018). Had this been a problem for SAS, the could easily have used their alliance network for these flights, if the demand for certain destinations were wanted by their customers.

3. *Norwegian will have more HUBs around the world, (not including Star Alliance) than SAS.*

We proposed a difference between the expansion strategy of an airline without an alliance and an airline with a membership to an alliance. The airline without an alliance will have a need to establish bases in new markets, compared to an airline with an alliance. We see that Norwegian has established and operates with three times the number of bases in many more countries than SAS. The reason for this is that one of the advantages that comes with being a member of Star Alliance is the cooperation with other airline member's bases around the world. All of the members share exclusive lounges in almost all airports where a Star Alliance member is present, making it possible for SAS to take advantage of bases Lufthansa have in Germany for instance, and offer their customers the same experience as if SAS operated a base there.

Consequently, we find a key difference in the way these airlines internationalise their operation. Norwegian have been expanded by establishing bases in different markets around the world, and in turn hired a staff for said market to operate their flights and operations there. SAS have instead cooperated with other airlines and their resources when carrying their customers for longer distances, resulting in the ability to concentrate their own resources for their primary operations in Scandinavia and Europe.

4. *SAS will offer more destinations and to more countries than Norwegian*

As previously discussed, entering an alliance can lead to entry to markets otherwise unavailable to a firm. For an airline, an alliance can lead to opening up destinations that previously were not available. Our initial thoughts were that since SAS can benefit from the network in Star Alliance, we believed SAS would be able to offer their customers more destinations in more countries than Norwegian. After our analysis, we learned that Norwegian does in fact offer both more destinations and fly to more countries than SAS.

While there have been beneficial to SAS to be a member of Star Alliance when it comes to offer destinations to their customers, Norwegian have proved that it is not necessary to be in an alliance if an airline wishes to operate in many markets. By their expansions strategy of establishing bases around the world, they have been able to operate more destinations and to more countries than SAS.

5. *SAS will have a higher brand awareness than Norwegian*

This proposition includes multiple factors which must be considered. Firstly, measuring brand awareness is often difficult. In our analysis we used a tool/website called Brand Finance, a highly popular site which ranks brand awareness for firms within an industry. From our findings there we found Norwegian to have a higher brand awareness than SAS. Next, we wanted to analyse the legitimacy of alliances in order to take SAS's membership in Star Alliance into account, as we felt that it would be a disservice to discount this in our analysis of the brands. We see from theories regarding the legitimacy of strategic alliances that there is often a need for an alliance to provide endorsement and accessibility to other markets. Therefore, while Norwegian may have a higher brand awareness than SAS, it is difficult to say that when we take into account the exposure Star Alliance have globally, and the benefits and customers that bring SAS. Hence, their brand awareness is not necessarily as important for SAS as they can rely on the Star Alliance brand for new and unknown markets, an alliance which brings a certain validation to all its members.

Research statement

The research question we started with was:

How have airlines used alliances to internationalise their expansion?
A Case study on Norwegian Airlines and Scandinavian Airlines' behaviour.

Having now gone through an analysis of the relevant theories, and the case at hand we are now ready to look back at the question that started it all. One thing that became clear throughout our analysis is that airline with alliances and airlines without an alliance does not expand their operation the same way. For airlines with an alliance, we see there is possibilities within the alliance when the airline wants to expand their operation.

First, there is code-sharing agreements where the airlines share the flight, so the airline can get support from the alliance to offer new destinations to their customers, without having to carry out parts of the flight themselves. This makes it easier for the airline to expand into new markets quickly and without having to allocate resources first. Additionally, as mentioned regarding the legitimacy of an alliance, the airline with an alliance can sometimes get air sector rights through the alliance, a problem we have seen Norwegian face on several occasions.

Second, we see that the airline with an alliance do not need to establish bases in their target market if there is a base established by another member of the alliance already there. As with Star Alliance, and other airline alliances, all members share the bases within the alliance for their customers.

Conclusion

With all that in mind, we see that our case study holds true to the relevant literature theories we have analysed. There are clear strategic advantages for an airline to enter an alliance, especially for international expansions. Without only having studied Star Alliance at a glance, we see benefits of the alliance portfolio. There is a clear emphasis on each airline to optimize their operations in their main market, as we see with SAS and Scandinavia for instance, which benefits the network as a whole. The network is then able to cover more markets than if they worked independently of one another. Lastly, we analysed the legitimacy of strategic alliances, which once again brought up some of our key takeaways from this study. The possibility of expanding into new markets without having to allocate resources there or entering new markets with the support of the alliance. For Norwegian, they had to take a different route for their international expansions. They have instead emphasized establishing bases all around the world to support their operations and to better serve the markets. They have to have a varied and big fleet in order to be able to offer their customer similar routes and distances as their competitors.

We have arrived to the premise that alliance portfolio strategies, like entering or not one for example, do influence the focal firm´s performance in the interorganisational arena of its industry, which normally would have as a goal to improve the firm´s resource access and legitimacy as discussed in the next section. Also, it is worth noting that these same strategies will be deriving from the business strategy, that will in turn determine the goals of all alliances of the firm, like entering a new market or acquiring better aircrafts in the case of airlines.

A Strategic alliance can be beneficial for all firms, and especially beneficial for expanding into new markets as seen in our case analysis. It will open new possibilities, as well as help to manage resources for any global firm.

Limitations and Future Research

Our research has brought about various limitations that may provide for future research. We believe the airline industry to be an interesting field for further studies. Our research was somewhat limited in regards to data gathered and the scope, therefore, there are several interesting angles and areas left to study regarding these themes.

First, the lenses that we adopted in our analysis and the theoretical framework we used to evaluate our case could be questioned: is this a sufficient and broad enough scope of evaluation to decide whether an airline should enter an alliance or not? How many other relevant theories we left unattended or overlooked on the way? Although we are convinced we have reached a meaningful conclusion, other theories could shed some more light from different angles and colours, say from the perspective of a Value Configuration Analysis or the exploitation/exploration approach. We, unfortunately, counted on a limited amount of time for this research, but would have definitely dug deeper if there was no time constraint.

Second, due to statistical validity, it is impossible to claim that our conclusion can be taken as an universal truth. There is a limited scope of accuracy in our research generated by the contrast we have decided to study, which includes only two companies competing in, relatively, the same market. More comparisons between several airlines would be certainly helpful to assess the conclusions offered by our paper.

Third, it is well known that inside the airlines industry networks play a central role in firm’s strategies. Therefore, we could claim that the whole effect and importance of strategic alliances is more common and usual here than in any other industry and that could have biased our research. Airlines could rely on strategic alliances more than any other firms in other industries. A more extensive conclusion could be drawn from different industries in order to avoid industry-specific behaviour.

Lastly, even though we are proud of our results, we are aware that our case study remained quite analytical and financial. Future research should consider adopting a more normative, behavioural, cultural approach in terms of partner selection or alliance types depending on the context or socio-economic factors going further than just profit.

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Appendix

Preliminary Master Thesis Report starting on the next page.

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GRA 19502

Master Thesis

Component of continuous assessment: Forprosjekt, Thesis MSc

How have airlines used alliances to internationalize their expansion? Considerations on the Norwegian Airlines Case.

Navn:	Emma Rebeca Pinto Guzman, Dennis André Hæhre
Start:	01.01.2018 09.00
Finish:	15.01.2018 12.00

Preliminary Master Thesis Report:

How have airlines used alliances to internationalize their expansion? Considerations on the Norwegian Airlines Case.

Advisor: Debbie Harrison.

Written by: Dennis Hæhre and Emma Rebeca Pinto Guzman.

Study Programme: Master of Science in Business – Strategy Major

Executive Summary

One of the most important trends in industrial organization of the past quarter century has been the growth of collaboration between independent companies. Firms have progressively liaised with other firms in order to participate in activities and gain resources outside of their limits.

In this Preliminary Master Thesis Report we aim to show the actor the path we will follow in order to success answering the question “How have airlines used alliances to internationalize their expansion? Considerations on the Norwegian Airlines Case.”

First an overview on Strategic Alliances is done to put the reader in context, followed by a preliminary literature review on Airline Alliances. Then the area of study and the research question, design and method are presented. Finally, we designed a brief implementation plan to help us as a guide for our research.

Contents

Executive Summary 2

Introduction: 4

An Overview on Strategic Alliances 5

Literature review on Airline Alliances 7

Context / The Area of Study 10

The Research Question: 10

Research Design 11

Research Method 11

- Data Collection 11
- Data analysis 12
- Research Design Criteria 12

Implementation Plan 13

References 14

Introduction:

According to the Merriam Webster dictionary an alliance is a bond or connection between families, states, parties, or individuals, an association to further the common interests of the members; and finally a union by relationship in qualities. The Cambridge dictionary also defines alliances as a group of countries, political parties, or people who have agreed to work together because of shared interests or aims and as an agreement to work with someone else to try to achieve the same thing.

Strategic alliances are today an effective vehicle for cross organizational learning and resource and knowledge sharing among partners (Kale et al., 2000; Li et al., 2010).

Das and Teng (2000) proposed that the first reason for firms to sign up for an alliance is to obtain valuable resources. For the matter of this paper, the importance of succesful alliances is not only to obtain valuable resources but to reinforce and strengthen a valuable position in the international and globalized market of the airlines industry.

Few inventions have changed how people live and experience the world as much as the invention of the airplane. Due to this relevant position in human history, the airline industry has definitely progressed. Business, migration, connectivity and related matters have been touched by these advances. Even the concept of distance has been reconfigured.

This said, it is natural to understand that the airline industry develops itself in a highly competitive market. These last years it has been shaken by industry wide trends regarding domestic and international expansion.

An Overview on Strategic Alliances

Strategic alliances can be defined as" purposive strategic relationships between independent firms that share compatible goals, strive for mutual benefits, and acknowledge a high level of mutual dependence" (Mohr and Spekman, 1994). Gulati (1995) stated that an alliance is "any independently initiated interfirm link that involves exchange, sharing, or co-development". Strategic alliances are voluntary cooperative inter-firm agreements aimed at achieving competitive advantage for the partners (Das & Teng, 2000).

Interfirm alliances comprise cooperative relationships that are not completely defined either by formal agreements or by tenure. Henceforth, regarding the theory of economic organization, they are considered to be between the extreme structures: markets and hierarchies. Therefore, cooperative relationships between firms have been viewed as "intermediate" or "hybrid" organizational forms (Grant & Baden-Fuller, 2004).

The term "strategic alliance" has been used to refer to "agreements characterized by the commitment of two or more firms to reach a common goal entailing the pooling of their resources and activities" (Teece, 1992).

For a given factor (product or service), a firm may choose to: (1) produce it on its own; (2) purchase it from the spot markets; or (3) make it jointly with partner firms. (Das & Teng, 2000).

Strategic alliances bring together otherwise independent and sometimes competing firms to share resources in different stages of their value chain. Making an alliance allows a firm to focus their own resources on its main activities, core skills and competencies while acquiring other components or capabilities it lacks (Chan et al., 1997).

Alliances can take many forms, ranging from simple contracts with no equity ties, partnerships, to more formal agreements involving equity rights and shared managerial control over collective activities. These alliances and the network organizations they forge are becoming increasingly crucial as harder competitive conditions require firms to adopt flexible and more focused organizational structures (Chan et al., 1997). Strategic considerations involve using alliances to enhance a firm's competitive position through market power or efficiency (Kogut, 1988).

Global alliances allow companies to enhance their own international competitiveness through the use of their partner resources as well. In other words they can be used as a means to accelerate the international expansion of a firm. (Garcia-Canal, 2002) Global competition highlights asymmetries in the skill endowments of firms. Collaboration may provide an opportunity for one partner to internalize the skills of the other, and thus improve its position both within and without the alliance (Hamel, 1991).

The steps made in order to enter an alliance are, according to Gulati (1998) the decision to enter an alliance, the choice of an appropriate partner, the choice of structure for the alliance, and the dynamic evolution of the alliance as the relationship develops over time.

Alliances are unpredictable crucial factors of many corporations' competitive strategies. Among their blessings, they quickly open up doors to new markets, light up the way to competence development and provide a possibility to achieve scale economies. However, like every strategic decision, alliances can perform poorly and lead to dissatisfaction and disappointments. These successes or difficulties, according to (Larsson et all, 1998) could be triggered by collective learning processes.

Firstly, an important factor for determining interorganizational learning happens to be how one of the organizations could be an asset, a good partner or a competitor in the "race to learn" for the rest of the allies.

The authors proposed that an interorganizational dilemma is faced when (1) being a good partner provokes exploitation by partners trying to extract the most profit attempting appropriation of the joint learning, and (2) such opportunistic behavior would in turn weaken the collective knowledge creation and development in the strategic alliance.

There are many trade-offs between how joint learning is developed in alliances and how the outcomes of this learning are spread among the participants. Larsson et al

(1998) have identified five approaches to collective learning regarding their receptive capacity and transparency among the partners. The strategies include collaboration (highly receptive and highly transparent); competition (highly receptive and nontransparent); compromise (moderately receptive and transparent); accommodation (nonreceptive and highly transparent); and avoidance (neither receptive nor transparent).

Strategic alliances are shaped by several factors that allow for understanding the variation in alliance development, endurance and behavior. Obstacles for a common interorganizational learning could be the little motivation or absorptive capacity and communication between the organizations. Power imbalances, opportunism, information asymmetry, agent/principal conflicts and opposite learning strategies can also be named in the list of obstacles to a successful alliance. On the other hand, a healthy interaction, trust, long lasting relationships and mutual understanding of each other makes an alliance likely to be profitable and create valuable knowledge for all the parties.

Literature review on Airline Alliances

In the airline industry, strategic alliances are characterized by joint, dedicated marketing entities for network-wide cooperation (Fan et al. 2001). Recognition for mutual flyer program, shared lounges, extensive code-sharing, coordinated schedule and fare planning are features of strategic airline alliances with a goal of delivering a seamless travel experience across the entire alliance network. For instance, all members of the Star Alliance know one another’s frequent flyer programs, and many of them cooperate through code-sharing.

However, any one of these characteristics alone is not sufficient to elevate the level of cooperation to a strategic one. Fan et al. (2001) distinguish between two different characteristics of strategic alliances. Those are exclusive memberships and a joint marketing entity. In other words, a member of one strategic alliance cannot simultaneously be a member of another strategic alliance. Still, all carriers can at any time engage in a tactical cooperative agreement with multiple airlines in the same or different alliance.

During the 1980's the U.S. airline industry was deregulated, and the European airline industry was liberalized (Hokey M., Seong-Jong J.). This gave carriers greater freedom when it comes to operating routes and fares, and a dramatic restructuring of the global airlines industry occurred. Which paved the way for new strategic possibilities, which led to the emergence of strategic alliances in the 1990's (Hokey, Soeng).

The significance of unrealized network and other scale economies in the airline industry was not understood at the time airlines were deregulated. The industry appeared to lack economies of scale (Bailey and Liu 1995). Since then, strategic alliances have become increasingly important elements in a firm's portfolio of strategies and are viewed as a source of competitive advantage in the airline industry (Suen, 2002).

Agusdinata and Klein (2002) argued that the formation of strategic alliances is one of the most meaningful developments in the industry which, beyond the coordination of schedules and fares, aim at cost reductions through the possibility of joint procurement opportunities in a strategic network approach. Further Wagner et al. (2005) found that airlines involved in alliances showed higher joint procurement activities than airlines that were not involved in strategic alliances in his research.

There is a stream of research that addresses airline productivity issues (Schefczyk, 1993; Park, 1997). This stream of research includes studies measuring the extent of benefits of airline alliances and then assessing their impact on airline productivity, market shares, firm value creation, and competitiveness. Since strategic alliance has emerged as a popular business strategy for many airlines, some articles have identified the potential benefits of forming strategic alliances. Wan et al. (2009) identified the following five potential benefits of airline alliances. First, alliances allow airlines to expand their market bases internationally, while circumventing regulatory and legal barriers (Oum et al., 1996; Park, 1997). For instance, airline alliances often include code sharing agreements that allow one alliance member to sell tickets to destinations served by other alliance carriers.

Second, joining an alliance can provide cooperation benefits. An alliance can provide cost saving potentials resulting from sharing facilities, maintenance costs, sharing frequent flier plans, and joint marketing (Iatrou and Alamdari, 2005). Third, alliances may lead to traffic increases for partner airlines. Alliances can facilitate both linking cities within an international network and streamlining transfers between carriers. Consequently, load factors may increase, or the alliance members may be able to use larger aircraft with reduced per-seat flight costs on international routes (Harris, 1977, Wright et al., 2010). This is the one of the main reasons airlines in an alliance can gain competitive advantages over a non-aligned airline, according to Park (1997).

Fourth, passengers may benefit from more flexible schedules, shorter travel times, improved luggage handling, and shared frequent flyer programs (Dennis, 2000). These benefits can help build passenger loyalty for alliance carriers and, in turn, increase the effectiveness of loyalty programs.

Fifth, alliances may create more effective cooperation, which can lead to the elimination of competition on parallel, hub-to-hub routes if carriers cooperate, rather than compete, on price (Huston and Butler, 1988). Additionally, effective cooperation can lead to an improvement of firm value (Wassmer and Meschi, 2011).

There have been a number of empirical studies on alliances' impacts on performance, including Park and Cho (1997) and Oum et al.'s (2000), which show that alliances improve a carrier's performance on a number of economic measures, including productivity, pricing, profitability, and share price.

Some studies have focused on and measured the impact of airline alliances on airfares. These studies have come to different conclusions. For instance, Brueckner and Whalen (2000) found that airline alliances resulted in airfare reduction through joint pricing. Later, Wan et al. (2009) argued that it was not as simple as that, and found that the extent of impact an alliance has on airfares depended on the ability to coordinate fares. Zou et al (2011) analyzed if cooperation led to higher fares though lower operating costs. While their results were mixed and not conclusive, they did find that two of the major airline alliances, Skyteam and Star Alliance, appeared to charge significantly higher fares for through-tickets(?) than the sum of segment tickets purchased separately. However, other studies such as Gayle (2008) have conducted a similar analysis and found no evidence that such cooperation or collusive behavior among airline alliance were present.

Berry's early study (1990) incorporated passenger preferences in a product differentiation model of airlines. He/She found that passengers are willing to pay a premium for services that relate to airlines' network coverage. In his subsequent paper, Berry (1992) estimated the effects of airlines' network coverage on airline city-pair profitability. However, the welfare implications are left open

Setting aside prices, Bailey and Liu (1995) argued for the importance of network effects in the airline industry, highlighting that alliances can provide consumers with convenient, on-line connection opportunities. The authors further found that the transition to a smaller number of firms has been welfare-improving. In other words, consumers are willing to pay more to have fewer firms in order to enjoy certain welfare-enhancing service improvements (Bailey and Liu, 1995)

Context / The Area of Study

We would like to write our master thesis focusing on the airlines industry. We will analyze airlines based in Norway, and how they have used their alliances in order to expand internationally. We have chosen the airlines industry because we feel this industry suits our research proposal, being that alliances are fairly common in the airline industry. Additionally, we have seen an increased focus on internationalization in the last years in this industry, and the importance of serving an international market has become critical for the success for airlines. In our study, we would like to analyze how the firms expand, and whether an alliance makes this process more successful. Further, we want to analyze how these firms makes use of their alliance during this process, and how to best make use of their alliance.

The Research Question:

How have airlines used alliances to internationalize their expansion? Considerations on the Norwegian Airlines Case.

We have decided to do a qualitative methods study, therefore we pose a Research Question that will be answered with qualitative investigation. It is composed by two parts that include the topic of Strategic Alliances in an international context and then we narrow the exploration into a particular case: Norwegian Airlines.

Research Design

We have chosen to follow a qualitative approach. The detailed design of our thesis is not yet set in stone, as we feel it will depend on our data gathering and interview possibilities, we have advanced in the request for Norwegian Airlines and Scandinavian Airlines to concede us an interview. A comparative analysis is highly likely, as our main plan is to interview two airline companies with a different strategy regarding alliances, and therefore it would be effective to compare these two firms in strategy and actions to analyze how being in an alliance impact how the firm expands internationally. This is depends on the data we are able to gather from these firms. If this is not possible, we might work towards a case study, with a single airline company. Then, analyzing that firm and how being in an alliance changes their approach to an international expansion.

Research Method

Data Collection

The core tool of our thesis will be interviews, and we hope to gather most of our data interviewing people from Norwegian airlines, or international airlines if necessary. As of now, we have approached both Norwegian Air Shuttle and Scandinavian Airlines System (SAS) and asked for the possibility for an interview in the coming months.

While neither of these airlines were able to confirm an interview for the coming month, neither of them declined our request. We did receive contact information from both firms for people we can approach when we have time and preparations in order, and hopefully these will be able to assist us. However, the representative from Norwegian did say that as of now, they are somewhat tired of being interviewed for research project, so a face to face interview were unlikely.

The reason that we have chosen to focus on these two airlines primarily is because their location and market share internationally. Both are global airline companies who have had to expand their operation on several occasions, and this is one of the things we are interested in. SAS is a member of Star Alliance, so we are curious to find out how being in an alliance have impacted how they have expanded internationally. Whether or not precautions were made in regards to the other members of the alliance when expanding, or if there are some benefits to being in an alliance when the company expanded into different regions.

When it comes to Norwegian Air Shuttle, they are not in an alliance as of right now in the same way that SAS is a part of Star Alliance. They have different networks and companies they are partner with, but not in the same formal way as a traditional airline alliance. We are curious as to why that is, and whether they believe that they have benefitted from not being in an alliance, or if they see some points of their operations and expansions being made easier if they had been in an alliance.

Our plan for the interviews is to conduct semi structured interviews. The structure and construction of the interviews will follow Bryman and Bell (2015) framework and we intend to include questions that give us a broader perspective of the firm, in addition to direct, follow-up and probing questions

The reason for not performing a survey is that surveys are limited to the questions formulated in advance. We believe interviews will help us get a better understanding of the strategy and actions the firms have taken.

Data analysis

Transcribing and analyzing the interviews will be a large part of the thesis work. The thesis will be analyzed through content analysis, using an inductive analytical approach. In this part, coding is a crucial segment in the process of doing content analysis (Bryman and Bell 2015, 299). We hope to find some data that can help us answer or at least provide some information regarding our research question.

Research Design Criteria

It will be important to evaluate possible validity issues regarding our method. From Bryman and Bell (2015), validity can be described as "the integrity of the conclusions that are generated from a piece of research".

This is separated into two parts, internal and external validity. Internal validity is concerned with the issue of causality and the importance to gain credibility. External validity is mainly concerned with the issue of transferability, whether the research is applicable to other contexts and situations. We want to keep this in mind during our thesis, and try to make sure our research fits into these criterias.

Implementation Plan

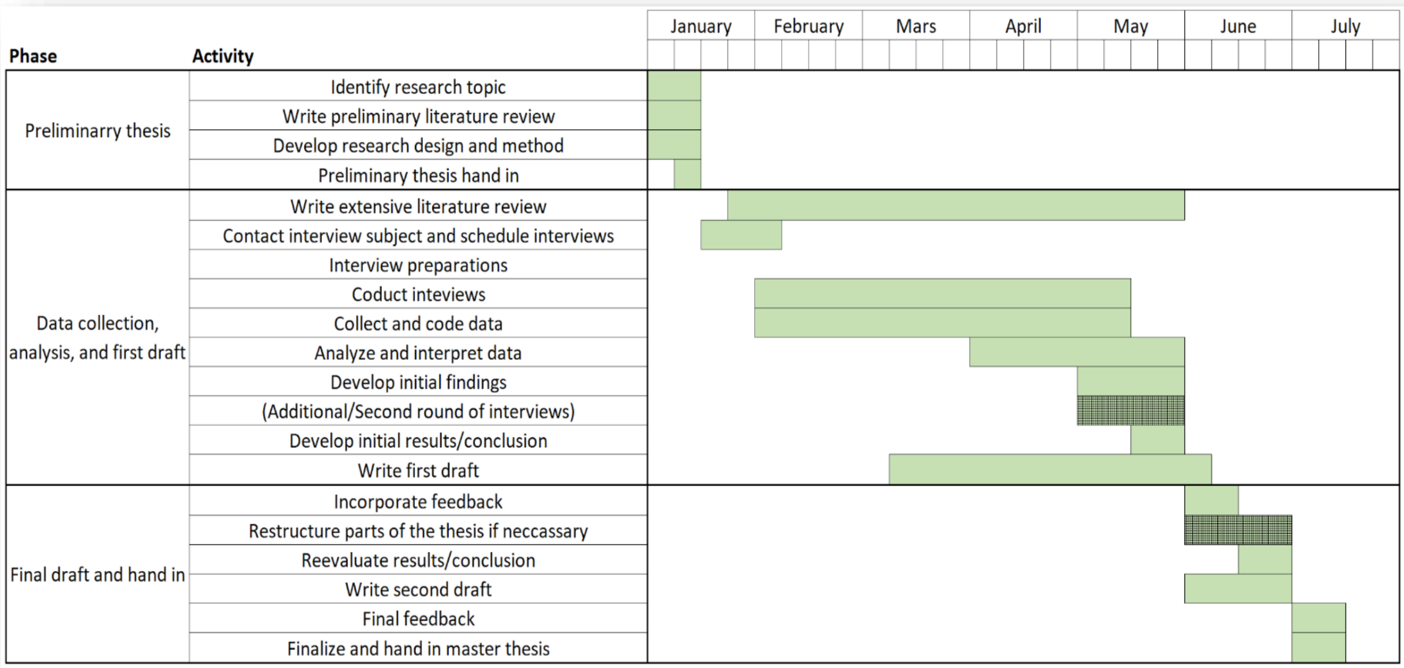

Figure 1 Implementation Plan

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