

**Configuration of Value Activities in International Service Firms.
A Network Analysis of HRM Practices**

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Paper submitted for Presentation at the
33rd EIBA Annual Conference
Catania, Italy
December 10-13, 2007

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This study is part of a large research project “Global Strategies of Service Firms” which is funded by the German Federal Ministry of Education and Research (www.3k-projekt.de)

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Abstract

A main source of competitive advantage of international service firms is the efficient configuration of their value activities across national borders. This is aimed to exploit both economies of large scale and arbitrage advantages. Despite the importance of configuration strategies, however, there exist few empirical studies in this field. Most studies are devoted to manufacturing firms which may not adequately consider the specifics of service firms (e.g., immateriality of services, integration of the external factor).

The aim of this study is therefore to explore the configuration strategies of service firms. Particularly, the configuration of human resource management (HRM) as one of the most important value activities in many international service firms is analyzed.

In order to get a deeper insight into the cross-border configuration of HRM, 23 semi-structured interviews with pilots, ground staff and flight attendants as well as middle and top-managers of seven airlines were conducted. Furthermore, company websites, internal material and existing literature were extensively analyzed.

A combination of both qualitative and quantitative methods of data evaluation reveals that the need for differentiation is much more important than the attempt to standardize HRM instruments globally. As a consequence, compared to other functions such as information technology, marketing or procurement, HRM is strongly differentiated. Particularly, recruitment and compensation are largely decentralized while attempts to centralize certain functions can be found in the fields of personnel development and leadership, only. A network analysis shows that corporate culture, organizational factors and different labour laws are the main pressures for the geographical dispersion of most HRM functions across national borders.

Problem, Objectives and Structure of the Paper

Multinational Corporations (MNCs) are faced with a dilemma. On the one hand, the economic, legal, political and cultural conditions in different countries have to be considered when making strategic decisions in order to become an insider in the local market and to manage foreign subsidiaries in an efficient way. On the other hand, the need for global efficiency requires a standardized approach to be able to compete on the world market.

One instrument to meet these conflicting demands is the transnational configuration of value activities. According to Porter (1986), the core idea is to limit foreign subsidiaries not only to their success in their national market, but to integrate them into a world-wide value-added network. Only those value activities should be located in a particular country, which are able to contribute to the success of the MNC as a whole. As a consequence, foreign subsidiaries can no longer be managed as separate entities, but must be considered as specialized parts of an integrated transnational network. As Bartlett and Ghoshal (1998, p. 60) note: “The transnational centralizes some resources at home, some abroad, and distributes yet others among its many national operations. The result is a complex configuration of assets and capabilities that are distributed, yet specialized. Furthermore, the company integrates the dispersed resources through strong interdependencies.”

MNCs have a wide range of possibilities to configure their foreign activities across borders. The spectrum ranges from concentration to dispersion, i.e. from the centralization of a certain activity at only one location that serves all the other countries to its decentralization and localization in every single country. According to Porter (1996), the number of locations for each value activity, on the one hand, mainly depends on the potential of realizing economies of large scale. Normally, these are strongly pronounced in upstream activities, whereas, in downstream activities, different customer requirements prevent the standardization of products and processes and require a higher degree of decentralization. The geographic location of the value activities, on the other hand, depends particularly on the ability to exploit national differences. Here, great importance is to be attached to the utilization of arbitrage opportunities that result from different labor and capital costs, tax burdens, customs tariffs, etc., as well as leverage opportunities that accrue from the market power of large MNCs (Kogut, 1985; Rugman and Verbeke, 2001).

In the last years, several empirical studies of the configuration of value activities across national borders have been published (e.g., Kotabe, 1998; Archibugi and Iammarino, 2002; Zou and Cavusgil, 2002; Fisch, 2003; Holtbrügge, 2005). Most of these studies, however, are devoted to manufacturing firms and do not adequately consider the specific conditions of service firms (e.g., immateriality of services, integration of the external factor). The aim of this study is therefore to explore the configuration strategies of service firms. Particularly, the configuration of human resource management (HRM) in the airline industry is analyzed.

The remaining part of the paper is organized as follows. In the next section, a short description of the airline industry, with particular reference to airline alliances and Star Alliance, will be presented. Afterwards, the integration-responsiveness framework as the theoretical framework of the study will be explained. The research design and methodology of the study is briefly discussed in the next section. In the main part of the paper, the results of our empirical study will be presented. The paper ends with a summary of the main findings and directions for future research.

Background: Airline Industry, Airline Alliances and Star Alliance

Airline Industry and Airline Alliances

The airline industry is one of the fastest growing industries in the world, and one of the main industries that is affected by globalization. According to the International Air Transport Association (IATA, 2004), the number of passengers traveling on scheduled flights has increased on average by over six percent annually for the last three decades. Compared to 2003, international airline passenger traffic increased by over fifteen percent in 2004, and in certain regions, such as Asia-Pacific, even by over twenty percent. A remarkable characteristic of the airline industry is its high degree of horizontal integration. In the last 10 years, three major alliances, namely Star Alliance, Oneworld and SkyTeam, have been established. Together they account for nearly 70 percent of the global market share. Among the largest 10 airlines in the world there is only one (Japan Airlines) which has not yet joined one of these three coalitions (IATA, 2005). The global competition in the airline industry changes more and more from a competition between airlines to a competition of airline alliances. Within these alliances, airlines from different countries and

at various sites around the globe cooperate. Thus, diverse processes, knowledge, experiences etc. are shared and commonly carried out.

Airline alliances are not mergers, as airlines remain legally autonomous entities and keep their identities (Vander Kraats, 2000; Kleymann and Seristö, 2004). They can however, to a certain extent, be described as “quasi-mergers”, as they develop code-sharing arrangements that involve a high level of integration (Eaton, 2001). In strategic alliances, airlines cooperate horizontally with other airlines, which are also potential or actual competitors. Kleymann (2005) argues that alliances can partially be seen as organizations in their own right, but that these organizations are based on interdependent needs, rather than on common purposes. Airlines remain autonomous but are interdependent, meaning that centripetal forces bring the members to integrate, whilst simultaneous centrifugal forces push them away from one another.

Through alliances, partners aim to compete more successfully. Collaboration may consist of joint frequent-flyer programs and check-in facilities, code-sharing agreements, marketing arrangements, procurement policies, system commonality, and even the interchanges of flight-crew personnel and aircraft. In contrast to regional alliances, which are specific to a particular region, strategic alliances involve code-sharing and other agreements on a vast number of routes. Strategic alliances are said to generally have a significant and positive impact on profitability and on market share, especially when they involve high-level co-operation (Oum et al., 2000). Strategic alliances facilitate an airline’s rapid external extension of its network without risking financial or legal commitment to its partners. Alliance members share the costs associated with the development of new products or processes, and join certain resources and operations. Despite the cultural diversity of partners, alliances allow their members to harmonize and integrate their products and processes, and passengers to enjoy smoother transitions for connecting flights. Nevertheless, the characteristics of the product, the market conditions, and the structure of operational costs create challenges and make strategic airline alliances difficult to sustain.

Star Alliance

Star Alliance is not only the largest, but also the most integrated airline network. The members cooperate predominately on a non-equity basis in many business fields. The alliance was formed in May 1997 by the following airlines: Air Canada, Deutsche Lufthansa (Lufthansa), Scandina-

vian Airlines System (SAS), Thai Airways International (Thai Airways), and United Air Lines (United). Today, Star Alliance has eighteen members, which is the largest number of partners in any airline alliance. Alongside the founding five airlines, other members are Air New Zealand, All Nippon Airways (ANA), Asiana Airlines, Austrian Airlines (AUA), British Midland (bmi), LOT Polish Airlines, Singapore Airlines (SIA), South African Airways, Spanair, Swiss, TAP Portugal, US Airways and Viacao Aerea Rio-Grandense Brazilian Airline (Varig) (Figure 1). In April 2006, the member airlines had access to 842 airports in 152 countries of the world, carried 425 million passengers annually and employed approximately 360,000 people. Within the next 12 months, Air China, Shanghai Airlines and Turkish Airlines will join the alliance. With the addition of the first regional members, the Finnish SAS subsidiary Blue1, and two further new partners, Croatia Airlines and Adria Airways, Star Alliance is likely to remain the world's largest airline alliance, with a global market share of around twenty-eight percent (Star Alliance, 2007).



Figure 1: The Airline Network of Star Alliance

The economic advantages of collaboration can arguably only be maximized if a single controlling entity is created to unify all aspects of the business under a central authority. Although there is no official controlling entity of Star Alliance, Star Alliance Services Ltd. functions as a “pro-

ject and brand management company” (Star Alliance, 2004) to devoid the divergent interests of the members. The company was established according to German law in order to co-ordinate the development of Star-concepts, and to work towards an efficient rollout of joint products around the world (Lufthansa, 2002a). It is organized into several strategic business units including Human Resources and Training, is financed through fees paid by the member airlines, and employs approximately sixty people. However, the focus of Star Alliance Services Ltd. is more on customer-related services and IT systems, rather than on HRM policies.

Theoretical Framework: The Integration-Responsiveness Grid

As do the operators of any service industry, airlines face the challenge of finding the right strategic balance between global efficiency on the one hand, and satisfying individual customer needs on the other. This question of balancing global standardization and local individualization has received significant academic attention since the early 1980s (e.g., Porter, 1986; Bartlett and Ghoshal, 1989).

According to Prahalad and Doz (1987 p. 14), standardization is the central management of resource commitments across national boundaries in the pursuit of a strategy that is normally the responsibility of the headquarters. A standardized HRM strategy at Star Alliance would mean that all human resource-related activities are organized on a global scale. The member airlines would become increasingly similar and integrated, and this integration would be driven through joint technological systems and frequent communication. The main objective would be to achieve global-scale efficiency, and a centralized focus would be in place to coordinate the integrated airlines. The airlines would have a global HRM strategy, which could, for example, involve standardized methods for recruitment, training-programs that are carried out on a worldwide basis, and global remuneration systems. In addition, the airlines would have a global workforce with a single alliance culture, a joint management team, and a global resource base.

The adoption of a standardization strategy, however, has been argued to be naive and oversimplistic, as it ignores the inherent complexity of operations in international markets. Problems associated with the standardization of human resources would include, for example, the reluctance to change, cultural incompatibility, and different legal and economic environments. Due to these problems, an individualized HRM strategy is often required. According to Prahalad and

Doz (1987 p. 15), local responsiveness refers to resource commitment decisions taken autonomously by a subsidiary in response to primarily local customer demands. This involves aiming to take into consideration the particulars of employees in the working relationship. An individualized HRM strategy would emphasize localization over globalization due to, amongst other things, differences and incompatibilities of cultures and varied institutional environments. The HRM strategies of airlines would remain diverse and fragmented, the airlines would focus on exploiting their diversity and being responsive to local demands, and they would have a global network structure. The underlying assumptions of an individualized HRM philosophy include the evidence of heterogeneous needs and interests of workers, the unwillingness of employees to sacrifice their individual preferences for systems and processes, and the limited ability to achieve economies of scale through global organization.

Research Design and Methodology

In order to analyze the various pressures for standardization vs. differentiation of HRM instruments, 23 semi-structured interviews with pilots, ground staff and flight attendants as well as middle and top-managers of seven partner airlines were conducted. Moreover, two top-managers of Star Alliance Services Ltd. were interviewed. Based on a half-standardized questionnaire the interviews were conducted in German and English language. Furthermore, company websites, internal material and existing literature were extensively analyzed.

The interviews lasted between 1 and 1 ½ hours and were audio-taped. Subsequently, all interviews were transcribed and computer-analyzed with the software program NVivo. We used the method of axial coding for coding the text passages. An example of the coding procedure is given in Table 1.

For data evaluation, a combination of both qualitative and quantitative methods was used (triangulation). First, a qualitative content analysis was applied, followed by a frequency analysis of the respondents' statements. Finally, we used a network analysis in order to explore the relationships between HRM instruments and standardization vs. differentiation pressures.

| text passage | coding | relation |
|---|--|----------|
| „In our courses (of the Lufthansa School of Business) especially employees of Lufthansa participate. Sometimes we also have participants from Austrian Airlines. Other airlines only rarely send their employees to us. One reason for this is that most courses are taught in German.“ | training and development (differentiation) | ↑ |
| | language differences | |

Table 1: Example of Coding Procedure

Standardization vs. Differentiation of HRM Instruments

In the following, a detailed analysis of particular HRM instruments at Star Alliance will be made. Four fundamental instruments will be discussed, namely recruitment and selection, training and development, compensation, and leadership. As the result of the frequency analysis of the respondents' statements in Table 3 shows that, in general, HRM is much more differentiated and thus geographically dispersed than standardized. However, the degree of differentiation differs between the four instruments. The ration for compensation is the largest and for training and development the smallest.

| respondents | 1 | 2 | ... | .. | Σ |
|----------------------------------|---|----|-----|----|------------|
| codes | | | | | |
| <i>HRM instruments</i> | | | | | |
| recruitment and selection | | | | | |
| - standardization | - | 1 | | | 16 |
| - differentiation | 2 | 2 | | | 57 |
| training and development | | | | | |
| - standardization | - | 2 | | | 33 |
| - differentiation | - | 3 | | | 52 |
| compensation | | | | | |
| - standardization | 1 | - | | | 4 |
| - differentiation | 1 | 4 | | | 62 |
| leadership | | | | | |
| - standardization | - | 2 | | | 12 |
| - differentiation | 3 | 1 | | | 41 |
| <i>HRM (Σ)</i> | | | | | |
| - standardization | 1 | 5 | | | 65 |
| - differentiation | 6 | 10 | | | 212 |

Table 2: Frequency Analysis of HRM instruments

Recruitment and Selection

Recruitment and selection generally involves HR-marketing, as well as the choice and employment of the appropriate applicant. In general, airlines place great emphasis on hiring the right contact persons, and pilots with both technical and interpersonal skills. There is currently no standardized recruitment policy for Star Alliance airlines, although our respondents identify recruitment to be an area, which could possibly be standardized in the future. One could assume that as cabin crew and pilots of all airlines must be able to perform similar tasks, that to a certain extent, the recruitment process could be standardized. However, the recruitment processes of Star Alliance airlines are somewhat different. For example, when considering the requirements for cabin crew, the strategy of some airlines is more market-orientated than HR-orientated, as their selection process emphasizes the appearance of applicants, rather than their experience or capabilities (Eaton, 2001). Due to legal reasons all airlines require applicants to have a minimum age of eighteen, and there are legal requirements for pilots and cabin crew in terms of citizenship and holding a valid right to work in a given country. In addition, almost all airlines require applicants to have a certain height and a “proportional weight” (bmi, 2004; Thai Airways, 2004; Lufthansa, 2005). Lufthansa is the only airline, which also restricts the maximum age of crewmember applicants to 40 years. This is reasoned by Lufthansa’s belief that this job is not a lifetime-career, but one which is normally performed for seven to ten years only, due to the strenuous nature of the job, unsocial working hours, and frequent trips away from home which do not correspond to personal pursuits of family life. Other reasons for this policy are to increase flexibility and to reduce long-term liabilities, such as seniority pay, pension costs and medical expenses (Gil, 1990). In the USA, Lufthansa’s policy would be classed as discrimination and a violation of the Age Discrimination in Employment Act, which was imposed by the Equal Employment Opportunity Commission in 1967. This Act indirectly permits cabin crew to carry out their occupation for as long as they can physically do so and pass the medical tests. As a result, United Airlines reportedly once employed a crewmember until the age of 80 years.

As well as recruitment requirements, methods of recruitment also differ. For example, bmi applicants should apply via post, Air New Zealand, Austrian and SIA applicants can apply via e-mail or by post, whereas Lufthansa applicants undergo an advanced and sophisticated on-line application process through the company career portal. A further difference is that at Lufthansa a pass-

port photograph and at SIA a full-length photograph should be enclosed in the application (Lufthansa, 2005; Singapore Airlines, 2004). This is not legally feasible in the USA, due to potential discrimination of applicants in terms of ethnicity or appearance. In the USA applicants are not even questioned on their personal details such as family status and age. Due to these differences, the employment as a member of cabin crew at one Star Alliance member does not have any direct influence on the recruitment success by another member. Although one of our respondents had five years of experience as a crewmember of SAS Norway, when applying for a similar position with Lufthansa, she was treated as any first-time applicant and went through the standard process of on-line application, telephone interview and personal interview. This could be regarded as inefficient as the recruitment process requires time and resources on behalf of both the applicant and the HR-department.

Training and Development

Training and development is aimed to equip employees with the necessary knowledge, skills and qualifications, and the attitudes to perform their jobs in the best possible way to achieve corporate goals. Training increases the ability of firms to attract and hold on to talented employees, which is crucial for the success of airlines. Cabin crewmembers require a relatively standard educational background (Gil, 1990). Training involves specialized safety training (Goodwin and Johnson, 2000; Alston, 2004), and training in the fields of communication, teamwork, decision-making and emergency management (Liao and Tsai, 2001; Paton and Jackson, 2002). It varies at the different Star Alliance members, and several airlines even have their own training academies or centers for the training of pilots, cabin crew and air technicians. For example, Singapore Airlines, which is renowned for its customer service, invests heavily on training (Singapore Airlines, 2004). Fifteen percent of payroll goes on employee training, compared to only one and a half percent spent by American Airlines (Mycek, 2000). Cabin crewmembers at SIA are trained for four months (Singapore Airlines, 2004), whereas the American industry standard is four weeks, only (Mycek, 2000). At other Star Alliance airlines, the basic training period for cabin crew ranges from five weeks at Air New Zealand (Air New Zealand, 2007) to eight weeks at Air Canada (Air Canada 2007) and eight to ten weeks at Lufthansa (Lufthansa, 2005). Pilots differ from cabin crew as they face onerous, prolonged and stringent training with requirements for the compulsory number of flying hours and different practical and theoretical examinations (Eaton,

2001). Pilot training is also very company-specific, as it is focused on a particular airline, the particular airplanes of that airline, as well as its terms of business and processes, making it a rather individualized matter. Due to the skills required to perform a pilot's task and the large investment in these, airlines are relatively bound to their pilots (Blyton et al., 2001).

Nevertheless, according to our respondents, training and development is one area of HRM, in which common policies are in place in Star Alliance airlines. For the coordination of these policies, the director of training and development at Star Alliance Services Ltd. meets with the leading training managers of the partner airlines. These managers discuss which type of personnel needs to be trained or informed about which Star Alliance strategies and processes. This is most relevant for operational staff, such as ground personnel, as they need to be familiar with all newly developed Star Alliance products and processes, such as check-in facilities, ticketing, and baggage handling. In addition, general information about the members and the benefits of the alliance, as well as the advantages of joint strategies need to be taught to all Star Alliance employees. However, although Star Alliance sets minimum training standards, the methods, design and form of the training is not determined by Star Alliance, but is the responsibility of each airline.

Beyond information about Star Alliance products and processes, training also focuses on areas such as inter-group conflict and effective teamwork (Appelbaum and Fewster, 2004). According to one respondent, ANA provides intercultural awareness seminars in Tokyo, which other alliance employees attend. Star Alliance also has an internationally focused trainee program for emerging employees, "Explorer". Specific employees from partner airlines participate in this program, and the costs are paid by the employing airline. Furthermore, the managers of the airlines are sometimes offered development programs and work experience with other Star Alliance members (O'Reilly, 2002). There is currently no "Star Alliance College" to focus on management training and development of employees of all airlines. However, the Lufthansa School of Business cooperates with individual Star Alliance partners in different fields, and partners have the possibility to participate in courses and programs given (O'Reilly, 2002). The programs are taught in German and are therefore generally only attended by employees of Lufthansa and Austrian Airlines. Moreover, the available number of places on the programs is limited, and, due to the German codetermination law, Lufthansa employees are given priority. The costs of participa-

tion (tuition fees, travel expenses, opportunity costs from being away from normal job etc.) are also relatively high.

Compensation

Compensation basically refers to the payment of employees for their working services, as well as company shares and other extras. In the airline industry, pilots and cabin crew are paid according to their seniority. Seniority remuneration assumes that employees that have been working for the company for a length of time perform better than newer employees, due to learning effects and their firm-specific knowledge about products, customers and suppliers, as well as the firm culture. Seniority benefits include higher wages, priority with choice of shift and holiday dates, flight discounts, and increased job security. Since seniority is company-specific, pilots and cabin crew infrequently change their employer. In addition, different airlines apply different types of employee compensation including salary, pay-for-performance bonuses, profit sharing, employee ownership and performance recognition awards. Moreover, profit sharing, stock purchasing, and contributions to retirement plans are common (Appelbaum and Fewster, 2003). Remuneration varies widely between countries and even within companies of one country, as different groups of employees are rewarded by different compensation systems. It is also affected by a country's economic situation, living standards, and purchasing power, as well as culture, legal regulations, and industrial relations. Therefore, remuneration is simply too complex to be standardized across Star Alliance members.

Leadership

Leadership as well as employee participation are equally complex and difficult to standardize. According to Feldman (2001), as Star Alliance's joint management is growing, the alliance unions are doing so, too. Examples include the Association of Star Alliance Pilots (ASAP) and the Star Cabin Coalition. The ITF also recently launched the trade union "Star Solidarity Alliance" to mirror the global alliance of United Airlines, Air Canada, Lufthansa, SAS, Thai Airways and Varig. In terms of bargaining power, cabin crewmembers are in a relatively weak position, due to their skill requirements and the large supply of new-recruits, as well as over-capacity and intensifying competition among airlines (Eaton, 2001). Pilots are in a much more favorable position as they are in short supply worldwide, and take up to three years to be trained (Gil, 1990). The co-

operation of pilots can have a great affect on worldwide wage negotiations. For example, in 2001, after Delta agreed to a wage increase of approximately forty percent, pilots all around the world began to demand similar increases. At Lufthansa there was a pilots strike, which ended being the longest pay dispute in the airline's history. An agreement was made with a wage increase of approximately thirty-five percent (in comparison to ground personnel, who only received 3.5 percent higher wages) (Reuters, 2004). Nevertheless, as Eaton (2001) states, "despite some pressures towards multi-carrier collective bargaining, coordinated bargaining was always spasmodic". Therefore, again individual approaches are in place, especially for non-pilot employees who are less organized (Feldman, 2001).

Pressures for Differentiation

The last section has shown that, with the exception of the coordination of training and development activities by Star Alliance Services Ltd., Star Alliance airlines have predominantly individualized HRM strategies. In the following, possible reasons for this will be discussed. Three main factors can be identified to help to explain why a standardized HRM policy is not in place, namely organizational, cultural, and legal factors. The section is based on a network analysis of the respondents' statements. In Figure 2, the four HRM instruments are illustrated in oval and the three reasons for their differentiation are illustrated in squared boxes. The thicker the frames of these boxes, the more often these variables were named as differentiation pressures. The size of the arrows and the numbers symbolize the frequency with which the respective relationships were mentioned.

The first obvious reason why HRM is to a large degree differentiated is that the organization Star Alliance is not a corporation in its own right, but a network of loose co-operation between legally independent airlines. Although member airlines are partners who cooperate in many ways, they are also competitors at the same time. The aim of the alliance is to create a healthy relationship between partners with the right balance of cooperation and competition (Lufthansa, 2002b, p. 10).

A second factor that makes the standardization of HRM policies difficult is culture. Cultural rifts within airlines are inherent to the global multi-faceted nature of the industry (Appelbaum and Fewster, 2004). As the majority of airlines were until fairly recently state owned and are often

regarded as “national symbols” (Kleymann, 2003), they generally have a strong national identity. Star Alliance has consciously maintained the individual characters and cultures of the airlines (Star Alliance, 2004). Furthermore, it is not only the airlines, but also the employees of the airlines who differ greatly. Due to these differences, there is no single way that is suitable to deal with all individuals and to standardize HRM (Wright and Brewster, 2003).

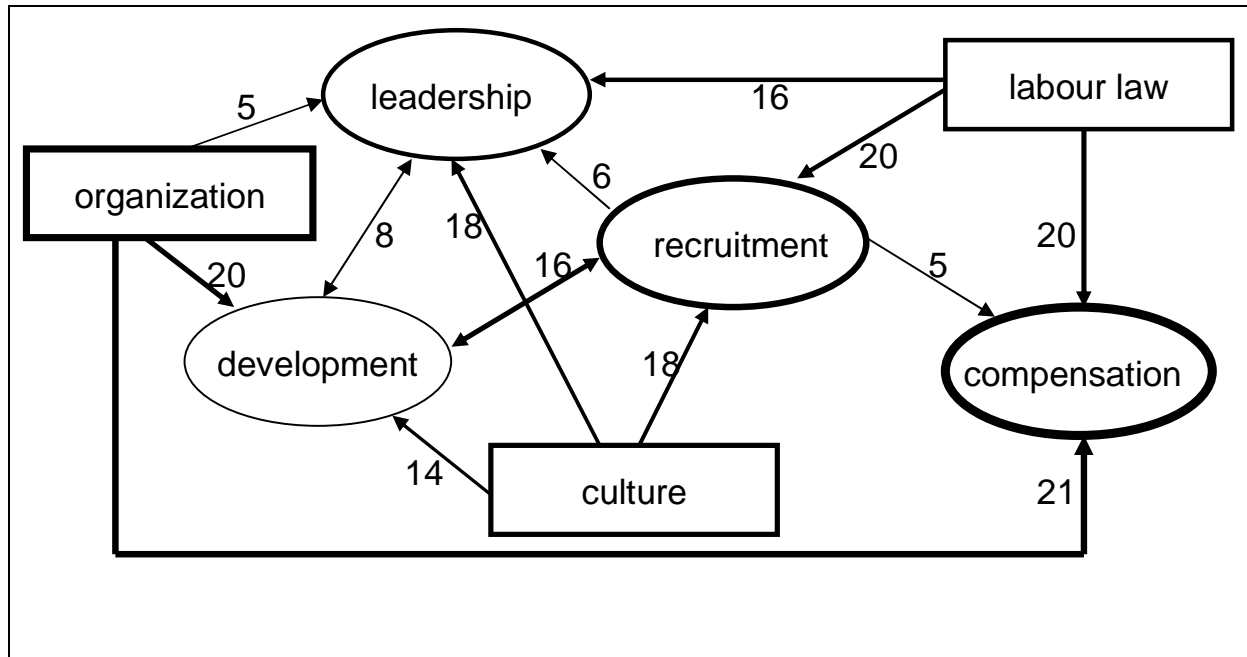


Figure 2: Network Analysis of HRM Instruments and Differentiation Pressures

As a consequence, Star Alliance has chosen to follow a multicultural strategy. Although the airlines have been encouraged to be familiar with the cultures of their partners from the start, they are free to maintain their own culture and to adapt their strategy according to this culture. Due to this, airlines can have very individual styles and characteristics, which are appreciated by customers (Lufthansa, 2002b). Nevertheless, certain elements of the “Star Alliance culture” can be seen in each of the airlines, partly due to common objectives for standard and quality. This multicultural strategy of Star Alliance directly affects HRM, for example, in the areas of HR-marketing, development and training, and leadership. In HR-marketing, the quality standards of the airlines are ascertained and primarily locally organized. Development and training programs can be tested for their appropriateness in different airlines and different countries, and a homogeneous qualification standard can be applied worldwide. Moreover, leadership aims to integrate

alliance employees by standardizing communication worldwide through a global alliance magazine or brochure. In addition, this strategy implies that the recruitment is made predominately of local people, as they need to be familiar with the particular culture. This multicultural HRM aims to combine global vision and strategies with local needs and strengths.

The third factor, which makes the standardization of HRM policies difficult, is differing legal environments. For example, in Germany (where Lufthansa originates) employees are represented in the governing bodies of corporations more so than in other countries (Turnbull, Blyton and Harvea, 2004). In the USA (where United and US Airways originate), themes such as discrimination and harassment play a more important role than in other countries, and American contracts contain relatively strict working time rules and provisions. American contracts restrict flexibility in the areas of transfers (detailed job classifications) and promotions (seniority clauses) as well as aircraft staffing to a greater extent than in, for example, Germany. Furthermore, in Sweden (where SAS partially originates), employment laws make the labor market more suitable for older employees than in other countries, and workers are free to work until they are 67 years of age. Due to these differences, a standardized HRM policy is not possible. As one respondent stated, “national systems of labor regulation are probably harder to break down than we sometimes think”. In addition to different employment laws, airlines must also take national public laws, taxation regulations, and social security aspects (health insurance, pensions, National Insurance, private nursing insurance, and accident insurance etc.) into consideration.

Summary and Implications

In this study we have analyzed the pressures for standardization vs. individualization in the airline industry with particular reference to Star Alliance. Overall, a high pressure for standardization can be resumed. In particular, the presence of multinational competitors and customers with highly universal needs, as well as the high investment and technology intensity result in a strong pressure to exploit economies of scale whenever possible. As a consequence, the need for global integration at Star Alliance is high. At the same time, the industry is faced with a high level of national regulations such as restrictions on market access and foreign protectionism, which means that some characteristics of a blocked-global industry (Porter, 1986) can be found, too.

Nevertheless, as Ghoshal (1987) argues, the analysis cannot be limited to the industry level, but must be taken further to a firm level, as functional level, and even to a task level (Figure 3). As explained above, Star Alliance is characterized by a high degree of global integration. This integration is however, mainly focused on the standardization of procurement, IT Systems, facilities and marketing. In contrast to these functions, in HRM the pressures for differentiation are still dominant.

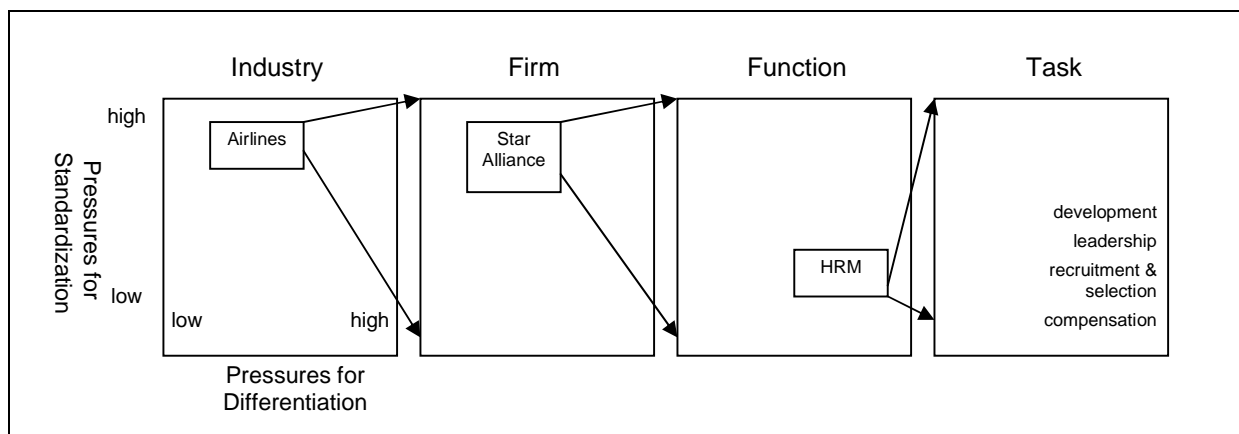


Figure 3: Levels of Standardization vs. Differentiation of HRM at Star Alliance

A more detailed look at the task level shows that recruitment and selection, remuneration and participation are largely individualized. The many differences between the airlines and their non-congruent interests make the standardized input of these instruments ineffective at globally distributed workplaces. Moreover, the conflicting relationship between cooperation and competition would (if legally possible) demand a too greater level of control and expense. Therefore, Star Alliance airlines only standardize certain aspects of training and development. Here, a coordination of activities takes place and is necessary as all operative employees of Star Alliance airlines need to be informed about all products and processes that are present on an alliance level. The actual implication of the training, however, is again the responsibility of the individual airline.

To summarize, it could be argued that whilst to the outside world, alliance membership is praised and has a certain legitimacy by focusing on synergy and harmony, internally the partners' main objective is to preserve their autonomy as far as possible by focusing on individualism (Kleymann, 2005). These three opposing principles of synergy, harmony and individualism are the fundamental principles of the alliance and they are symbolized by the triangular shape of the

stars in the Star Alliance logo (Lufthansa, 2002a). Therefore, the extremes of a fully standardized or a fully individualized strategy are arguably not an objective of the alliance. Star Alliance follows a holistic perspective. On the one hand, the alliance reaps the benefits of economics of scale and scope, as well as of reduced costs, which are associated with global coordination. On the other hand however, the airlines equally concentrate on adapting to political forces, government demands and the individual cultural needs of their employees by being locally responsive. This can be referred to as “transnational capability” (Bartlett and Ghoshal, 1989).

An interesting question is whether HRM policies at Star Alliance airlines will increasingly become standardized or individualized in the future. On the one side, previously standardized items such as workshops for operational employees and the use of different working groups are no longer in place. This is partially caused by the fact that over time, as the alliance has developed and grown in size, many areas have become more complex and difficult to coordinate (Lufthansa, 2002b). On the other side however, with increased co-operation between partners, a higher standardization of certain HRM policies may be feasible. The likelihood of this is however restricted by different laws and regulations, cultures, and the limitations posed by cartel and competition-enhancing authorities.

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