

# **Austrian Airlines: An analytical examination using Porter's Diamond**

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# **Austrian Airlines: An Analytical Examination Using Porter's Diamond**

Brett Forman  
Spring 2010

## **ABSTRACT**

Austrian Airlines' long history of operating as an Austrian owned company has finally come to an end after their poor performance in 2008. This paper analyses the means by which Austrian Airlines has been able to compete globally for so many years in the competitive airlines industry and proposes reasons for their past success. The four components of Michael Porter's Diamond of National Advantage were used to analyze the company, in combination, with two other variables that have an effect on all four of the components, the government and chance. The main four components of Porter's framework include firm strategy, structure, and rivalry; demand conditions; related and supporting industries; and factor conditions which together work as a framework to determine the factors that allow Austrian Airlines to have a national comparative advantage. The information used in the paper was gathered from the company's annual report, various online sources that are not affiliated with Austrian Airlines, Michael Porter's book "The Competitive Advantage of Nations" and primary data from a customer satisfaction survey. From this analysis, it is evident that Austrian Airlines derives its ability to compete from many different sources such as the country's geographical location and the supporting industries located around their main airport hub in Vienna. It will become more apparent in the coming year, when more information is published, as to why the company's performance in 2009 was so poor which forced the privatization of the company.

## **INTRODUCTION**

After 51 years of business under Austrian ownership, Austrian Airlines has the ability to compete as a government owned airline. In 2009, the company was taken over by Lufthansa Group after the Austrian government assumed a large amount of the airlines debt. This paper looks at Austrian Airlines' ability to be competitive in the global airline industry and analyses which aspects of their operations have been crucial in allowing them to remain a state owned business for such a long time. Austrian Airlines' comparative advantage is examined using Michael Porter's diamond model, which uses four pillars: firm strategy, structure, and rivalry, demand conditions, related and supporting industries, and factor conditions. This paper also highlights areas of the airlines' operations that have been detrimental to their success; however, due to a lack of in depth information on the 2009 operations of the company, a further analysis of the underlying reasons for their privatization was not possible.

## **1. COMPANY OVERVIEW**

### **1.1 Austrian Airlines Group**

Austrian Airlines was formed in 1957 as a merger between Austria's two airline companies, Air Austria and Austrian Airways. One year after the merger, the company began its first passenger flights from Vienna to London using a small fleet of four planes. (World Aviation) Austrian Airlines now offers flights

to North America, the Middle East, and Asia with the majority of its flights still to European destinations. The airline provided flights for over 10 million people in 2008 to 120 destinations across the globe. Their 91 aircraft fleet consists of a mixture of Airbus, Boeing, Bombardier, Fokker, and Canadair Jet planes, which range in size from the smaller Bombardier Q 300 seating 50 passengers to the larger Boeing 777-200 which seats 309 passengers. Their fleet has a relatively low average age; one of the main reason Austrian Airlines has had zero aircraft accidents. Over the entire existence of the company Austrian Airlines has maintained an impeccable safety record through their commitment to safety standards. (Austrian Airlines, 2009)

As the company has grown in size, it has expanded its operations to include charter flights under two subsidiary companies: Lauda Air and Slovak Airlines. Lauda Air, originally founded by the Austrian Formula One racer Andreas Nikolaus, became a part of Austrian Airlines in 1997 and flew long haul flights to Australia and Asia from Vienna. Before the merger, Lauda Air was one of Austrian Airlines main competitors flying out of Vienna; therefore, in an effort to reduce costs and increase business operations the company decided to purchase the airline.(Funding Universe, 2009) Austrian Airlines purchased a majority share in Slovak Airlines, but eventually had to withdraw their financial support as the Slovakian government did not live up to their partnership agreements.(Austrian Airlines, 2007) The company owns another fully owned subsidiary called Tyrolean Airways which they have re-named Austrian arrows which offers passenger flights. Austrian Arrows operates 50,000 regional flights a year from its headquarters in Innsbruck, Austria, in order to complement Lauda Air and Austrian Airlines medium and long haul flights. Austrian Airlines owns a number of other subsidiary companies that offer many services such as consulting, operating electronic travel distribution systems used by many travel agencies, and airline leasing. (LinkedIn, 2009)

In 2000, Austrian Airlines Group became a member of Star Alliance which is a global airline alliance whose goal is to make their passenger's travel more simple and comfortable. Star Alliance is able to offer their customers a smoother trip by integrating and combining all of their airline member facilities, resources, and services which gives Star Alliance customers access to the largest amount of products and services offered by any airline or airline group. Members of Star Alliance can also access many online services such as flight tracking, baggage tracing, visa and health information for travelling, and information on destination countries. (Star Alliance, 2009)

In 2008, Austrian Airlines Group ended the year with a net income loss of 429 million Euros and earnings per share of -5.19 Euros. Comparatively, their net loss was not terrible considering that US Airways incurred a 2,210 million dollar (1,471 million Euros) net loss in 2008. (United States Securities and Exchange Commission, 2009) As one would expect in an industry that requires high capital investment, Austrian Airlines has a debt to equity ratio of 7.57 for 2008. One reason for their high debt to equity ratio is the company's focus on maintaining a relatively low industry average age on their fleet. There are huge capital costs associated with purchasing new aircraft for their fleet which increases their total liabilities and consequently their debt to equity ratio. In addition, primarily due to the global financial crisis, shareholders equity decreased significantly 67% from 2007 to 2008.

Earlier in 2009, Lufthansa and Austrian Airlines started negotiations for the companies to merge allowing Lufthansa to purchase some of the state owned company. Lufthansa agreed to purchase Austrian Airlines only after the Austrian government decided that they would assume some of the company's debt from its previous year's performance. (Breaking Travel News, 2009) The companies believe that the merger will reduce their costs overall costs through resource sharing and that it will increase both of their revenues. The companies have estimate these cost savings around \$100 million dollars and hope that this will help bring Austrian Airlines out of their net loss from 2008. (MenaFN, 2008) This merger has a large impact on stakeholders other than just shareholders in Austria and

Germany; it also affects a large number of people travelling from Eastern Europe to Western Europe, or vice versa, as Vienna has acted as a hub for air travel between those regions. Using Vienna as a hub for people to travel between Eastern and Western Europe has been thought of as one of the reasons for the increased development of Eastern Europe, so if the merger does not go smoothly it may also affect businesses. For the merger to be successful the two companies will need to ensure that they successfully integrate and pool their resources, knowledge, and strategies to reduce costs any related to inefficiencies or duplication of routes, as well as, to earn greater revenues.

## 1.2 Customer Satisfaction Survey

To gain a better understanding of how satisfied customers are with Austrian Airlines, I surveyed 25 people who had flown with the airline and compiled the results. Overall, the people I interviewed were happy with the airline's customer service and they expressed positive feelings towards the friendliness, timeliness, and overall product offered by the company. The results of the survey seemed to correspond with the customer service awards the airline has won and the company's commitment to providing a high level of customer service. (Austrian Airlines, 2009:27) Although customer satisfaction is not as easily measured as other sources of competitive advantage, I believe that it is crucial source of any business's domestic or international success. The results from this survey indicate that customer satisfaction is a source of competitive advantage (but probably not a comparative advantage) for the airline. The survey questions and a summary of the results can be found in Appendix A.

## 2. THE AUSTRIAN ECONOMY

After joining the European Union in 1991, the biggest change in the Austrian economy came when they became members of the European economic and monetary unions. The first change Austria made was the adoption of the Euro from the Schilling which required the Austrian Central Bank to reform their monetary policy laws to fit with those of the European Union. In addition, the country would have to follow any future monetary policies set by the European Union to remain a member. The country also had to meet certain criteria regarding inflation control, national debt, exchange rate stability, and long term interest rates. Becoming a member of the European Union and adopting the Euro allowed Austria to become part of one large market. Having one currency allowed Austrian businesses to operate more efficiently across borders and made it less risky and less costly to do business. Other benefits include the simplicity of comparing prices of goods and services within the European Union, and making financing more accessible for Austrian businesses which is important for industries that require large amounts of capital. For a country such as Austria, that have a smaller Gross Domestic Product compared to other European countries, their entry into the union has provided the country with many opportunities to access cheaper goods and services and to expand their business opportunities outside the country by leveraging their central geographical location. This is especially important as more Eastern European countries become part of the European Union, as Austria will be able to act as a business hub to bridge the west and east. (European Commission, 2009)

Excluding the effects of the financial crisis on the 2009 market results, Austria has seen a positive real growth rate in their economy for the past six years representing an increase in Gross Domestic Product from \$253.1 billion US dollars in 2003 to 416.4 billion US dollars in 2008. (OECD, 2003) Austrian exports in 2008 were slightly less than their imports, which for a small European country is good as most small countries are unable to produce all of the goods domestically. Similar to Canada's close relationship with the US, most Austrian exports are sent to Germany which last year made up 29.4% of Austrian exports behind Italy and the US. To compete on the global export market, Austrian businesses focus on producing highly technical, high quality goods in order to gain a competitive advantage. (Dimireva, 2009) Businesses operating in Austria also benefit from business tax rates that are lower than many other

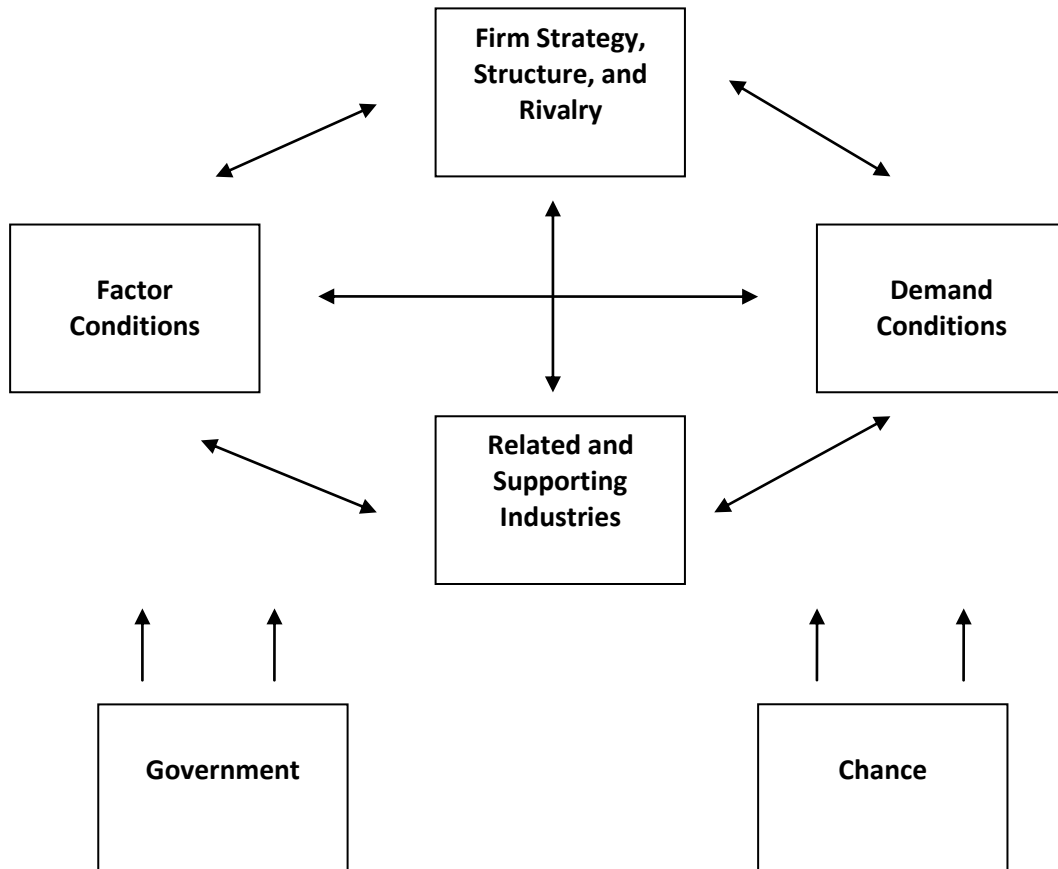
European Union countries such as the Netherlands, Italy, Sweden, France, Germany, and the UK. (Austrian Business Agency, 2009)

The Austrian economy can be broken down into three major sectors: the service sector which the airline industry falls under accounts for 67.4% of the economy, a small but highly developed agricultural sector makes up 1.9%, and industry accounts for the remaining 30.7% of the economy. One reason this large service sector has developed is because of the relatively high standard of living Austrians enjoy. Although the standard of living in Austria is comparable to other European Union countries, their GDP per capita of approximately \$40,200 US dollars in 2008 was slightly higher than the average. The country has been able to maintain a relatively high employment rate when compared to the European Union average with an unemployment rate of only 3.8% in 2009, a decrease from 2008. (Index Mundi, 2009) The country also has a well developed social system that provides healthcare and old age pensions for its citizens.

Austria has been one of the countries in Europe that has benefited the most from the fall of communism in Eastern Europe. Exports to Eastern Europe from Austria are on the rise and as more Eastern European countries join the European Union this trend will continue. An increasing amount of these Eastern European businesses are locating their business headquarters in Austria as a way to reach both the east and the west because of the country's central location. Another contributing factor for why companies are locating their businesses in Austria is because they have an extremely effective and well developed transportation system throughout the country that includes highways, expressways, railways, heavy air traffic, and Danube river ports. Also, a large amount of the financing that Eastern European companies acquire is from Austrian banks loaning them money. (Austrian Business Agency, 2009) These trends have benefited Austria in a few key areas: it has increased employment in the country by an estimated 10,000 jobs in 2007, which has helped lower the country's unemployment rate and keep people working during the financial crises, and it has had positive effects on the country's Gross Domestic Product. (Business Location Austria, 2007) There are many opportunities for Austrian companies in the growing Eastern European market and to take full advantage of these opportunities businesses need to leverage their location, transportation system, and close relationship with both the east and west.

### **3. PORTER'S DIAMOND OF NATIONAL ADVANTAGE**

In the 1980's, a University of Harvard professor named Michael E. Porter researched national competitive advantages between countries and published a book in 1990 called "The Competitive Advantage of Nations." In this book, Porter developed a new way to look at national comparative advantage that differed from traditional theories which focused on how many factor endowments a country had such as natural resources, labour, land, and the size of the population. (Porter, 1990) Porter's model is shaped in form of a diamond and is comprised of four different components which can be seen in Figure 1: Firm strategy, structure, and rivalry; demand conditions; related and supporting industries; and factor conditions. (Recklies, 2001) Government and chance are two important variables to consider, as they both have the ability to affect the four other components of Porter's diamond. Together, these four components make up the basic framework that Porter developed to determine why some countries, industries, or businesses are more competitive than others globally. (ICMBA, 2009) It is important to understand each of the determining factors Porter developed before using the framework to determine why a company or nation may have more of a national comparative advantage.

**Figure 1 – Porter’s Diamond of National Advantage**

### 3.1 Firm Strategy, Structure and Rivalry

According to Porter, the firm's strategy can be thought of as their company vision or long term strategy as determinant of success. If a company does not have the foresight to plan for the future and follow a long term business strategy they will not be able to maintain a sustained comparative advantage over their competitors. The key to success for any business operating domestically or internationally is the ability to maintain this competitive advantage over competitors for the long term. This requires that companies must continuously innovate and analyze their business processes and operations to reduce inefficiencies and remain an industry leader. The structure of a company is also a very important determinant of national comparative advantage when competing internationally, according to Porter, because the structure of businesses can differ drastically from country to country. A company can benefit from their domestic business structure if it matches well with the industry they compete in. Conversely, if a company's domestically influenced business structure does not coincide with the industry, it may harm the company and put them at a disadvantage when competition globally. For example, US firms tend to be large in size and have a very hierarchal structure, typically hiring the most qualified person for the position; on the other hand, Italian firms tend to be smaller and hire people based on the personal connections of managers and employees, regardless of their qualifications. Domestic rivalry is another important determinant of how competitive a firm will be globally. If there is a large amount of domestic rivalry it will increase the company's international competitiveness for a few

reasons. In the long run, firms with a lot of domestic competition benefit because they are forced to innovate and improve their operations, whereas companies with low domestic competition often hold on to old products and production methods because they are not forced to innovate or change. According to Porter, firms with high domestic competition can not just rely on basic advantages such as low labour costs or large factor endowments because they are available to everyone operating in the country. This non-reliance on basic advantages forces companies to further develop their business operations, and makes them more competitive when they enter the global market.

### **3.2 Demand Conditions**

The second component of Porter's diamond is demand conditions, which explains how the domestic demand for a product can affect the competitiveness of a firm. If there is a large domestic demand for a product in a country there is a greater chance that a firm will have a national comparative advantage. The main reason for increased competitiveness is that when there is more demand for a product in the country's domestic market, local firms tend to focus more on developing that product than their foreign competitors. This results in local firms innovating and improving their products or production process more than their foreign competitors, ultimately making a more attractive product to consumers. In addition, local firms who have a large amount of domestic demand are better able to identify customer needs in their own country than foreign firms, which can give them an advantage in product development and innovations. The national advantage occurs when the company then decides to export their superior product into a foreign market. If a market exists in a country that sets new trends, it benefits local firms as they are better able to predict future trends in the market. An example of this would be fashion companies in Milan or Paris being better able to predict future fashion trends as those two cities are the centres of the fashion world.

### **3.3 Factor Conditions**

The final component of Porter's diamond is factor conditions which refer to the condition of production factors within a country such as natural resources, labour, location, infrastructure, research facilities, and entrepreneurship. Factor conditions can be broken up into two groups: basic factors and advanced factors. Basic factors include things such as natural resources, country location, climate, or demographics whereas advanced factors refer to factors such as communication infrastructure, skilled labour, and research facilities. These factor conditions provide companies with basic advantages that can be used to gain a competitive advantage in the short run; however, to maintain a long term competitive advantage companies need to develop and be supported by their advanced factors. Depending on the different mix of factor conditions that a country has, certain industries will benefit or be negatively affected by them. For example, a country that has low labour costs such as China may benefit a firm producing products that are labour intensive; however, a company producing a product that needs to have a high amount of intellectual property protection may not benefit. Although a country may have a large amount of one factor condition, it is the extent to which the country or company has developed and used that factor which dictates whether or not they will gain a competitive advantage from it. In addition, some factor conditions such as skilled labour or technology base can be created by a country and are not dependent on traditional factor endowments. Certain factor conditions that a country has can also be changed or further developed to benefit the companies operating within the country more. Countries that have a limited amount of a factor condition or a constraint on the use of that factor conditions tend to innovate and develop new processes that can help companies gain a national comparative advantage.

### 3.4 The Government's Role and Change

The government of a country can have many effects on a company operating in almost every industry. If the government highly regulates an industry it can force companies to increase the standards or quality of their products to meet regulations which can have a huge effect on the company's ability to compete internationally. A country with more regulations on a product tends to produce a better product that is more desirable to customers domestically and internationally. The government can also have a huge effect on the amount of competition there is in a market by regulating who is allowed to enter the market and how firms are allowed to compete. For example, a government could limit the amount of collaboration a domestic company could have with a foreign firm that may have more advanced technology which would have a direct impact on the growth of the industry. Governments can also have positive effects on industries by offering subsidies, tax breaks, or infrastructure to help develop new technologies. The government also has an impact on other factors of production such as the level of a skilled workforce which it controls by supporting (or not supporting) programs or schools that increase the skill level of its citizens. (Value Based Management, 2009)

Chance is also an important variable to consider when using Porter's diamond. Although it is difficult to account for, chance can affect any business in any industry and should be mentioned. For example, if a German distribution company has two main warehouses in Berlin to serve all of their European customers and one of those warehouses was to burn down in an accidental fire, the company's ability to continue operations would be greatly affected. No matter how rare, incidents like this need to be considered when conducting a thorough analysis of a company.

## 4. ANALYSIS USING PORTER'S FRAMEWORK

### 4.1 Firm Strategy, Structure and Rivalry of Austrian Airlines

Austrian Airlines' core strategy can be broken down into success factors that the company has outlined in their annual report: Attractive domestic market with a strong catchment area, attractive Vienna hub, leadership in Central and Eastern Europe, cost leadership based on Austrian arrows operated by Tyrolean, and high-yield focus product and service leadership. (Austrian Airlines, 2009: 12) The strong catchment area refers to Austrian Airlines' central business location which funnels customers from the surrounding areas into Austria as their starting point for flights. They have been very successful at this over the past years and it continues to be a very central part of the company's strategy. The firm leverages the desirable location of their Vienna hub to attract customers to fly with their airlines. According to Austrian Airlines, the airport has an average transfer time of 25 minutes which is a desirable trait to virtually all customers that have to transfer flights. The company is able to generate cost advantages by using Tyrolean to operate Austrian arrows which allows the company to offer flexible flights to new destinations at relatively low costs. One of the success factors which has contributed a great deal to Austrian Airlines overall strategy is their focus on providing a high-yield product and service leadership. This can be broken down further into two more parts: the reputation of Austrian Airlines for providing a high quality, reliable and safe service which retains customers, and the high level of service it provides customers which can be seen in the higher than industry average business class seats the airline sells. Austrian Airlines' current strategy is to expand and retain their position as a market leader in the Central and Eastern Europe airline industry while continuing to provide excellent service for their existing customers in Western Europe. Included in the airlines' "Focus East" orientated strategy are medium haul flights to destinations in the Middle East. (Austrian Airlines, 2009:10) The company will still be implementing their strategy regardless of the purchase of the company by Lufthansa, and plan to deliver the same high quality service they are known for. The market for airline passengers in Eastern

Europe continues to grow as more countries enter the European Union. As an increasing amount of countries recognize the benefits that can be had in the growing eastern market, more foreign businesses will want to take advantage of the opportunities to be had and enter the market; more domestic businesses will be created to meet rising customer demand for goods and services, and firms will be searching for a central location to locate their headquarters to conduct operations in both Eastern and Western Europe. Many businesses entering or operating in Eastern Europe have already decided to locate their business in Austria because of its central location, excellent transportation system, and close ties with Austrian banks that provide a large amount of financing to Eastern European businesses. (Business Location Austria, 2007) The company is in a very advantageous position to leverage its current position as a market leader in the industry to further take advantage of the recent trends; however, they must continue to innovate and improve other parts of their business to have a national comparative advantage. The same need for innovation and improvement applies to the other success factors that Austrian Airlines has if they want to build an overall strategy that will facilitate a sustainable national comparative advantage.

The Austrian culture has many positive elements that have become embedded in the way Austrian Airlines' conducts business. The structure of Austrian and German corporations are hierarchal with a large emphasis put on qualifications and rank. In the business culture, Austrians are punctual people that operate their businesses in a formal work environment placing high importance on professionalism. As for any country with a large service sector, Austrian businesses are extremely service orientated, and focus a great deal of time and effort on customer satisfaction. Austrian people and firms are very risk adverse needing time to think about decisions they are about to make, and want to see facts to support their decisions. The Austrian business culture coincides well with the airline industry that Austrian Airlines operates in. Because Austrian Airlines is a large company, the hierarchal structure helps the division of labour (facilitates specialized groups that can focus on certain areas of the business), comparative advantage (allows the top people to use their expertise on important issues and not on issues that a less qualified person could complete), fair compensation (rewards people for their level of decision making and qualifications), and accountability which is also an important part of Austrians business culture. (The Other Librarian, 2007) Other more directly related elements that are beneficial for an airline are punctuality (planes arriving on time), professionalism and customer satisfaction focus (important when operating in a service industry), and risk adverse (important in an industry where safety is extremely important). For example, Austrian Airlines keeps a relatively low average age of their fleet to reduce risk and increase the level of safety they can provide customers. Overall, Austrian Airlines corporate structure increases their ability to compete globally.

Austrian Airlines no longer has a large domestic rivalry with another Austrian firm which in the long run can be a disadvantage for the company as they will not be as motivated to innovative and improve their operations from a domestic company. After the merger of Austrian Airways and Air Austria, the domestic market and Austrian customers would have been affected the most because the company was heavily forced to focus on meeting local customer needs which they would have in a heated rivalry; however, it is somewhat difficult to measure the exact effect that having no competition from another Austrian company had on Austrian Airlines because the company merged or purchased any existing domestic competitors. This being said, Austrian Airlines did not rely on a monopoly over the market to sustain its business because there was many other foreign competitors in the market competing for business at the time.

#### 4.2 Demand Conditions of Austrian Airlines

The worldwide demand for air travel has been declining over the past few years for a few reasons: the rising price of fuel, the terrorist attacks of September 11, 2001 on the US, and the economic downturn of the global economy. The economic downturn left people unsure about their current employment and financial situation in the future which led to a massive decrease in the 2008 demand for flights worldwide. The company reported that the largest decrease in demand for flights was on the long haul flights which declined by 12.4% in 2008. The decrease in flight demand was also further exasperated by the negative connotation and perceived risk of air travel from the September 11<sup>th</sup> attack on the US by terrorists. Austrian Airlines was affected heavily by the decreased demand which, in addition to rising fuel costs, had a large impact on their net loss for the year. The result of these two affects on the company was that they forced management to privatize the business and search for a strong partner to help turn the financial situation of the company around. The decrease in global demand in combination with the rising fuel pricing also had a devastating effect on the company's share price in 2008; which is especially negative for a company in an industry that has large initial capital expenditures. (Environmental Economics, 2008) Management's response to these two problems was well below adequate as they had to privatize the company in order to continue its operations. Their inexperience in dealing with a decrease in demand may have to do with the lack of domestic competition the company had in the past which explains why the company was not able to formulate a new strategy to deal with the changing environment.

#### 4.3 Related and Supporting Industries of Austrian Airlines

Austrian Airlines is able to derive a lot of value from their related and supporting industries to increase their global competitiveness. Although the main suppliers of the aircraft are located in Seattle, USA and Toulouse, France, the company uses many other local suppliers in Austria that add value to the company's value chain. Austrian Airlines' main hub in Vienna has attracted many supporting and supplying businesses to locate their operations at or near the airport such as restaurants, hotels, tourist and travel businesses, retail stores, buses, waste management services, and on flight meal suppliers. Other businesses such as train companies and fuel providers, have invested large amounts of money in infrastructure to allow their service to be provided to the airlines or customers that wish to travel to and from the airport. This cluster of related and supporting firms has strengthened the company's ability to compete globally and will increase its ability to have a national comparative advantage. There is a moderate level of competition in Austria in supporting and supplier industries, for example jet fuel suppliers, which increases the ability of the company to compete globally. Due to the increase in the number of businesses from Eastern European that are locating their headquarters in Austria, competition amongst suppliers and competitors would be expected to increase along with the volume of passengers flying out of the capital's international airport. Any increase in the competition of the company's supplier and supporting industries will have positive affects for the airline, as those companies competing are forced to further innovate and improve their operations. Ideally, an industry leading supplier would emerge from the competitive market that would further increase their ability to sustain a national comparative advantage.

#### 4.4 Factor Conditions of Austrian Airlines

Austrian Airlines has been able to compete globally because of the basic factors that the company has been able to utilize. The company has been able to use the country's skilled labour force to hire competent employees which has allowed the airline to develop a reputation for excellent customer service. The main basic factor that Austrian Airlines benefits from is the location of the country and their

main airport hub in Vienna. The company is able to draw in customers from surrounding areas to use Vienna as a starting point for their flights, and the country itself draws in tourists from all over the world to visit the beautiful landscape. Their location also allows the airline to act as the primary means of transportation for business people entering Eastern Europe, or expanding to the west from the east which will be a huge factor contributing to the sustainability of a national comparative advantage. The well developed transportation system and infrastructure that Austria has also benefits the company in many ways, such as the ease of accessibility for customers to reach most of the airports in the country. Suppliers and supporting industries can also transport goods to the company with relative ease using one of many different transportation systems the country offers. In order to sustain a comparative advantage, Austrian Airlines needs to further develop their basic factors and support them with advanced factors.

#### **4.5 The Government's Influence and Chance**

The Austrian government has a large impact because the regulations they put in place directly affect Austrian Airlines. There are regulatory enforcement agencies in most European Union countries that address and investigate any non-regulatory behaviour by airlines. Because Austrian Airlines operates within Europe and internationally, the company has to meet both the international safety standards and the European Aviation Safety Policy, among other regulations, to ensure their operations are conducted in the safest way possible for passengers. (European Commission Transport, 2009) If these regulations are not met in any of the European Union countries, the company is subsequently banned from operating in all of the other European Union countries. In the case of Austrian Airlines, the company has a unique situation as it was a state owned company until recently, and that it had no other Austrian airline competitors. The protected domestic environment that the airline operated in for most of its existence may not have been beneficial for the development of the airline. The lack of competition and government ownership could have led to the inefficiencies in the airlines operations which have ended up costing the company millions of dollars a year. If the company was not government run, the state may have encouraged more competition in the industry in order to spur a rivalry; therefore, helping the company to innovate and improve their operations. Although most of the regulations affecting the airline industry deal with safety issues, the European Union has developed other regulations that address waste management, overbooking, cancellations, and delays which force the airlines to improve their operations.

Chance, especially in the airline industry, can make or break a company. The most recent example was the crash of Air France's plane flying out of Brazil. The immediate effect of this seemingly rare occurrence was a large amount of negative press that deterred customers from flying with the company, at least for the short term, because of safety issues. Another rare occurrence that affected all airlines was the September 11, 2001 attacks on the Twin Towers. This event has created more work for airline industry, in general, because there are stricter requirements, more thorough bag checks, and more limitations on items that can be brought on board the plane. If such an event was to happen to Austrian Airlines, it would greatly affect all four components of Porter's diamond and have a huge impact on the operations of the business and their ability to maintain a national comparative advantage.

## **CONCLUSION**

Despite having many positive aspects related to the Austrian culture, the supporting and related industries, the structure and strategy of the firm, and factor conditions, the company has not been able to successfully deal with the changing industry environment. For the company to be successful in the future, they are going to need to re-evaluate some of their core business operations and adopt strategies that take into account changing industry environment. It is unlikely that the company will ever



## Austrian Airlines Customer Satisfaction Survey 2009 Data Summary

*This survey was completed by 15 people who have flown with Austrian Airlines that are currently living in Austria and the summarized data is displayed below:*

**1. When is the last time you flew with Austria Airlines?**

Within 1 year (3)                      Within 2 years (5)                      Within 5 years (7)

**2. How would you rate your experience with:**

- the check in process?                      Excellent (2) Good (10) Fair (2) Poor (1) Terrible (0)
- the friendliness of staff?                      Excellent (2) Good (8) Fair (3) Poor (2) Terrible (0)
- the ability of staff to help you with any problems?                      Excellent (1) Good (12) Fair (2) Poor (0) Terrible (0)
- the ease of boarding the plane?                      Excellent (0) Good (11) Fair (2) Poor (2) Terrible (0)
- your departure time?                      Excellent (0) Good (9) Fair (1) Poor (5) Terrible (0)
- the airlines on-route service (welcome and assistance)?                      Excellent (3) Good (10) Fair (2) Poor (0) Terrible (0)
- your arrival time?                      Excellent (1) Good (9) Fair (3) Poor (2) Terrible (0)
- baggage retrieval times?                      Excellent (2) Good (10) Fair (2) Poor (0) Terrible (1)

**3. How was the:**

- cleanliness of the aircraft?                      Excellent (3) Good (9) Fair (2) Poor (0) Terrible (0)
- in-flight entertainment (when applicable)?                      Excellent (1) Good (13) Fair (1) Poor (1) Terrible (0)
- in-flight meals (when applicable)?                      Excellent (0) Good (9) Fair (3) Poor (3) Terrible (0)

**4. Would you recommend Austrian Airlines to a colleague or friend?    Yes (13) No (2)**

**5. How would you rate your overall experience with Austrian Airlines?**

Excellent (1) Good (11) Fair (3) Poor (0) Terrible (0)

**6. Would you fly with Austrian Airlines again?                      Yes (14) No (1)**

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