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**LOW COST CARRIER-AIRPORT
RELATIONSHIP DEVELOPMENT IN
SOUTHEAST ASIA**

LIN CHEUK KI ELIVER

Ph.D

**THE HONG KONG
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LOW COST CARRIER-AIRPORT RELATIONSHIP

DEVELOPMENT IN SOUTHEAST ASIA

LIN CHEUK KI ELIVER

A THESIS SUBMITTED IN PARTIAL FULFILMENT OF THE

REQUIREMENTS FOR THE DEGREE OF DOCTOR OF

PHILOSOPHY

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CERTIFICATE OF ORIGINALITY

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LIN Cheuk Ki, Eliver

Abstract

This research aims to construct a theory based upon the explanation as to why and how low cost carriers (LCCs) and airports establish, as well as develop, business relationships in the context of Southeast Asia. The research study examines the pre-requisite constraints that may be encountered, factors that may drive the establishment of business relationships and factors that may affect both the establishment and development of business relationships.

This is an exploratory study to examine the development process of business relationships between LCCs and airports by investigating interaction episodes between them. A qualitative approach is adopted to investigate stages of the development process. The multiple case studies approach is also applied to several LCC-airport relationships to compare and contrast interaction episodes between them. The unit of analysis is defined as the development process of a dyadic relationship between the LCC and airport. Four case studies, Cebu Pacific-Suvarnabhumi Bangkok Airport, Cebu Pacific-Hong Kong International Airport, AirAsia-Macau International Airport and AirAsia-Clark International Airport, are selected. These will represent the four extreme scenarios of configuration of power imbalance and mutual dependence (Casciaro & Piskorski, 2005). This is in order to manifest influences of power and dependence on interaction by explicitly showing contrasts between the four extreme scenarios. As well as secondary data, two sets of semi-structural interview guides have been designed to collect primary data from both LCCs and airports.

Three stages have been found in the LCC-airport relationship development process, these being the pre-relationship stage, relationship establishment and growth stages

and relationship outcomes. Within the pre-relationship stage, the freedom of LCCs and airports to establish a mutual business relationship is found to be limited by pre-requisite constraints which also frame the whole development process of their relationships. This research introduces a business opportunity matrix to evaluate the desire of LCCs and airports to establish a business relationship with each other. Some external factors are found to form modulating forces which can weaken or re-enforce the desire of LCCs and airports in establishing their business relationships. The inter-desire of both LCCs and airports must be taken into account simultaneously when examining the possibility of establishing a business relationship between them. The inter-desire of LCCs and airports is found to determine their state of power imbalance and mutual dependence. Hence, their interaction during relationship establishment and growth stages is influenced. Power imbalance is found to determine equality in exchanging compromise and support between LCCs and airports. Mutual dependence and intertwined well-being and interests make LCCs and airports more willing to compromise and provide support to each other; while mutual dependence and mutuality are found to determine the strength of LCC-airport relationships. This research also reveals two different approaches to relationship development between LCCs-flexible airports and LCCs-institutionalized airports. The institutionalized airports carry inherent power which is found to override the power imbalance-mutual dependence status and dictate the behavior of LCCs. Government attitude, local carriers, media and ground parties are also found to influence interaction between LCCs and airports. Finally, four types of LCC-airport relationship outcomes are identified. They are the solid strategic-reciprocal relationship, unilateral committed relationship, loose-institutionalized relationship and unilateral attached-institutionalized relationship. Current relationship outcomes

are found to determine attitudes towards future relationship development. Provided their state of power-dependence and mutuality remain unchanged, future interaction and relationship outcomes can be affected.

The significance of this study reflects on the implications for practitioners and its contribution to academia. This research suggests the business opportunity matrix as a method for LCCs and airports to evaluate the value of establishing a business relationship with potential business partners. The findings of relationship establishment approaches, most wanted resources and capabilities together with the evaluation of power-imbalance, mutual dependence and mutuality provide ground for LCCs and airports to establish strategies for negotiating with each other. Strategies have also been suggested for LCCs and airports, based upon different relationship outcomes. For the academia, this research is able to extend the theories of interaction (Ford et al., 1986; IMP Group, 1982), resource dependence theory (Pfeffer & Salancik, 2003), mutuality (Ford et al., 1986) and capability (Ford et al., 1986) from the areas of industrial buyer-seller relationships to the LCC-airport relationships. These theories and concepts, together with the newly introduced business opportunities matrix and the configuration of inter-desire, enrich the theories within aviation management. Additionally, this research study also introduces a new concept within the resources and capabilities of airports. Airports are found to have the ability to control the accessibility of LCCs to potential demand of the catchment area of airports. The author also believes that FSCs will become increasingly cost conscious. Therefore, their interaction with airports in the future may follow similar interaction between LCCs and airports. This study can act as a starting point in studying the evolving FSCs-airport relationships.

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CHAPTER 1. INTRODUCTION

1.1. *Background of study*

The civil aviation industry entered the jet era in the 1960s' and 1970s' when the Boeing 747 aircraft was introduced. The emergence of jumbo-jets lowered the cost of flying and brought civil aviation to the majority. Flying began to be a commodity rather than a luxury product. Deregulation in the USA and liberalization in Europe brought another new era to the civil aviation industry. In this new era, the hub-and-spoke model was introduced into the market by the airlines and was followed by low cost carriers (LCCs). With the freedom to determine fares and capacity, LCCs emerged in the USA, spreading to Europe and all over the world. Initially, LCCs in the USA operated domestic routes only. As more liberalized air service agreements (ASAs) were negotiated successfully between countries, some LCCs started to operate international routes such as Oasis Hong Kong Airlines flying between Hong Kong and London, AirAsia Malaysia flying between Kuala Lumpur and Bangkok, and Cebu Pacific Airlines flying between Manila and Singapore.

The business growth of LCCs worldwide shows an approximate increase of 16% and 23% in seat capacity during 2005/2006 (Official Airline Guide (OAG), 2006) and 2006/2007 (OAG, 2007a), respectively. Owing to financial turmoil and outbreak of the swine flu virus, the airline industry has undergone a devastating period during 2008 and 2009. According to the Centre for Asia Pacific Aviation, 15th June, 2009, the global airline industry had already experienced 11 months of cutbacks in schedules since May 2008. Although seat capacity of the global airline industry decreased by 3% in May 2009 when compared to the same period in 2008, the LCC sector only decreased by 1% (OAG, 2009).

In addition, market penetration of LCCs increased from 17% to that of the global airline industry in 2006 (OAG, 2007a) to 22% by May, 2009 (OAG, 2009). This growth may be due to the increase in flight frequency intensity and the development of extensive networks. Whatever the reasons, the development of LCCs involves establishing business relationships with airports. However, the issue of LCC-airport relationships development has been seldom addressed by researchers. There is no existing theory relating to development of business relationships between LCCs and airports in currently available research literature. Meanwhile, the business model of LCCs is totally different from full service carriers (FSCs). Therefore, the knowledge of business relationships between FSCs and airports may not be able to be applied to LCC-airport relationships. This is because most FSCs are government owned, such as Air New Zealand, Finnair, Emirates, Thai Airways International and South African Airways, with most airports also being government owned. Therefore, most of the relationships between FSCs and airports are government to government relationships. Alternatively, most LCCs such as Eastjet, Southwest Airlines, AirAsia and Cebu Pacific, are privately owned. This implies that relationships between LCCs and airports are commercial to government relationships. Due to the different nature of the relationship between FSCs-airports and LCCs-airports, the knowledge of FSC-airport relationships may not be able to be applied to the LCC-airport relationships. Therefore, the major purpose of this study is to fill this research gap by exploring why and how LCCs and airports develop business relationships with each other in terms of the pre-requisite constraints that they may encounter, the factors that may drive them to establish their business relationships and the factors that may affect the establishment and development of their business relationships.

This research study can, in turn, contribute to the knowledge of air transport and management practitioners within the air transport industry. This research attempts to fill this research gap by borrowing some ideas from the Interaction Model (Industrial Marketing and Purchasing (IMP) Group, 1982), resource dependence theory (Pfeffer & Salancik, 2003), power imbalance and mutual dependence (Casciaro & Piskorski, 2005; Lawler & Yoon, 1996), and mutuality (Ford, Hakansson & Johanson, 1986; Johnsen & Ford, 2001). These theories have long been applied to the study of buyer-seller relationships within the industrial market and other relationships between commercial organizations. However, these theories may not fully apply to LCC-airport relationships as they are commercial-to-government relationships. Additionally, none of these theories can explain why and how business relationships are established between LCCs and airports. Therefore, these theories only act as the starting point to this study while further research is needed in order to fill the research gap.

Deregulation in the USA eliminated entry barriers of the domestic service, fares and capacity restrictions to a minimum. The over-riding theme of deregulation is to promote competition with market forces (Wells & Wensveen, 2004). Yet, many USA airports are government owned while some are actually government departments or contracted out to authorities (Oum, Adler & Yu, 2006). Airport managers are, by law, required to ensure that every airline has reasonable access to airport facilities (US Department of Transportation, 2006). Again, the rationale behind deregulation is to promote competition within the airline industry. As a result, LCCs in the USA such as Southwest Airlines have considerable freedom to develop their own domestic network.

The situation in Europe is similar to the USA in that the third package of liberalization removed restrictions on fares and routes (Sinha, 2001). The third package of liberalization forms a single sky across European Union (EU) countries and allows airlines, including the LCC, to fly domestic routes in another EU country or fly between two other EU countries. Therefore, LCCs in Europe are considered to have similar freedom to develop their network between EU countries. On the other hand, some airports in Europe are government owned while others are privately owned (Oum, et al., 2006). At the same time, commercialization of airports leads to keen competition between airports with overlapping catchments areas, creating pressure to generate sufficient income to be self-sustainable (Barrett, 2004). Moreover, the Rome Treaty prohibits state aid in any country within Europe in order to promote competition with market forces (Barbot, 2006).

It should be noted that the situation in the USA and Europe are similar. Deregulation and liberalization tends to reduce government control over airlines and airports to a minimal level, which makes the LCC-airport relationships in the USA and in Europe akin to commercial-commercial relationships.

However, the situation in Southeast Asia is different. There has been no such extensive multilateral liberalization in Southeast Asia as in Europe; instead, bilateral air service agreements (BASAs) are still the main form of aviation agreements between countries in Southeast Asia. Although restrictions on fares have been eliminated, a number of routes are still exposed to capacity control (Forsyth, King & Rodolfo, 2006).

Besides, airports are mainly government owned and controlled (Hooper, 2002; Oum, et al., 2006). Government subsidies to national carriers and airports are still common in Southeast Asia (Hooper, 2002), which means the aviation industry still comes under the influence of government. At the same time, most of the LCCs in Southeast Asia are privately owned. LCC-airport relationships in Southeast Asia therefore tend to be commercial-government relationships, rather than commercial-commercial relationships. Therefore, the Interaction Model (IMP Group, 1982), resource dependence theory (Pfeffer & Salancik, 2003) power imbalance and mutual dependence (Casciaro & Piskorski, 2005; Lawler & Yoon, 1996), and mutuality (Ford, et al., 1986) may not be able to explain the nature of LCC-airport relationships in Southeast Asia. Instead, this study borrows these theories and concepts as the starting point in order to construct the theoretical framework of the LCCs-airports relationship development.

This chapter first provides an overview of the airline industry, followed by a discussion on the development of LCCs. The definition of LCC and its operating characteristics are then summarized. The problem statement, research questions, objectives, contribution and scope of the study are also discussed in this chapter.

1.2. An overview of the airline industry and the growth of LCCs

Table 1.1: Overview of seat capacity provided by all scheduled flights in 2006 and 2007 (Source: OAG, 2007a)

Area	2006		2007		Annual Growth Rate	
	All scheduled flights	LCCs Penetration	All scheduled flights	LCCs Penetration	All scheduled flights	LCC
Worldwide	3,295,271,060	17%	3,495,955,781	19%	6.1%	22.7%
USA and Canada	978,658,357	26%	999,198,704	27%	2.2%	6.4%
Europe	752,901,590	24%	819,857,061	28%	8.8%	40.7%
Asia Pacific	836,062,529	9%	902,596,429	12%	8%	47.2%

Table 1.1 illustrates the market supply of the total airline industry as well as the penetration of LCCs during 2006 and 2007. As shown in Table 1.1, the worldwide seat capacity increased by 6% while LCCs increased by 23%, which significantly outperformed the average. When seat capacity of all scheduled flights increased by 2%, 9% and 8% in the United States, Canada and Europe and Asia Pacific respectively, the seat capacity of LCCs in these regions increased by 6%, 41% and 47% respectively. In the same period, the proportion of worldwide seat capacity provided by LCCs had increased from 17% to 19% with their penetration in all regions also recording an increase. In the United States and Canada, the penetration of LCCs had slightly increased from 26% to 27%. In Europe and Asia Pacific, the penetration of LCCs had increased from 24% to 28% and 9% to 12%, respectively. According to figures obtained from OAG (2007), the growth rate of LCCs from all over the world was approximately four to five times greater than that of the average. With this astonishing growth rate, the role of LCCs within the industry is increasing in importance. This section provides an overview of the airline industry as well as a comparison to growth of LCCs. The following section provides a brief summary on development of LCCs.

1.3. Development of LCCs

Following deregulation in the USA and liberalization in Europe, a number of LCCs have been flourishing. Southwest Airlines in the USA was established in 1971, which was the pioneer LCC of the world. It started to make profit in 1973 and has been consistently able to do so ever since. Following Southwest Airlines, American Trans Air, Frontier and JetBlue Airways were also founded in the USA.

Ryanair, the first low cost airline in Europe, started to provide a low cost service in 1991. After Ryanair, easyJet was set up to offer low cost scheduled services within Europe in March 1995. Debonair was set up in 1996 but it stopped flying at the end of September 1999. Virgin Express launched their operation in Belgium in 1997. Go, the low cost subsidiary of British Airways, was set up in 1998 and was purchased by easyJet in 2002. British Airways was the first major airline in the world to set up its own low cost subsidiary. KLM then followed this strategy and set up Buzz in January 2000. In the early period of liberalization, most European low cost airlines were set up in the UK. Today, they are flourishing all over Europe such as Germania in Germany, Windjet in Italy and even in former Eastern European countries such as Smart Wings in the Czech Republic, and Sky Europe Airlines in Slovakia.

LCCs are comparatively new in the Asia Pacific Region. However, this new airline model has already spread throughout the region such as AirAsia in Malaysia, Thailand and Indonesia, Cebu Pacific Air in the Philippines, Citilink and Lion Air in Indonesia, Freedom Air in New Zealand, JAL Express and Skymark in Japan, JetStar in Australia and Singapore, Oasis in Hong Kong, One-Two-Go and Nok Air in Thailand, Tiger Airways in Singapore, Virgin Blue in Australia and Viva in Macau.

Most of the LCCs only operate domestic routes such as Citilink, One-Two-Go, JAL Express and Skymark. Some only operate international routes such as Oasis, Viva, Tiger Airways and JetStar Singapore, whilst some operate both domestic and international routes such as AirAsia, Lion Air and Cebu Pacific.

The growth rate of LCCs and their development around the world, suggest that the role of LCCs is becoming increasingly important in the civil aviation industry as well as in the travel and tourism industry. This is because LCCs can stimulate demand on air travel with low fare strategy. The influence of LCCs will be extended along with the growth of their network. The network growth of LCCs will inevitably involve developing business relationships with airports. Therefore, the author believes that there is an urgent need to study the development of business relationships between LCCs and airports. To this end, this study will make a valuable contribution of knowledge to practitioners within the aviation industry.

1.4. Definition of LCC

According to the Eurocontrol Statistics and Forecast (STATFOR) Service (2006), there is no single best definition of low cost carrier. Najda (2003, p.8) defined LCC as ‘an airline that operates a point-to-point network, pays employees below the industry average wage and offers a no frills service.’ Alderighi, Cento, Nijkamp and Rietveld (2004, p.3) defined LCC as ‘an airline designed to have a competitive advantage in terms of costs over FSCs ... by relying on simple organization and logistics principles.’ Groote (2005) claimed that the LCC is generally accepted as a carrier which ‘offers low fares but eliminates most traditional passenger services.’ Dobruszkes (2006) tried to distinguish LCCs from FSCs in terms of fares and found

that LCCs offer fares which are as much as 60% less than those of FSCs. Francis, Humphreys, Ison and Aicken (2006) claimed that low cost carriers are not homogeneous, but have a great diversity between them. Francis et al. (2006) further suggested that the low cost carrier is a general business model which reduces costs compared to FSCs, by means of operating characteristics. The European Cockpit Association (ECA) (2006, p.6) suggested that LCCs are carriers that ‘try to meet market costs in order to offer competitive fares’. Previous researchers have tried to define LCCs between the aspect of cost, operating characteristics and fares. This research combines all three aspects to define LCCs as: Carriers that reduce costs using their own operating characteristics in order to have cost advantages over FSCs, enabling them to offer substantially lower fares to the market.

Additionally, LCCs can also be distinguished from FSCs by their operating characteristics. Operating characteristics are important to LCCs because they determine costs. Previous books and researchers, such as Doganis (1991, 2001), Freigerg (1996), Graf (2005), Dobruszkes (2006) and Francis et al. (2006), outline a detailed list of operating characteristics of LCCs which is summarized, as follows.

1.4.1. Product and operating characteristics of LCCs

LCCs aim to achieve low costs using their particular operating characteristics such as operating at secondary airports, single aircraft type, no frills service, point-to-point service and direct selling, as well as attracting traffic by offering substantial low fares. This section illustrates the operating characteristics of LCCs in detail.

Secondary Airports

Most LCCs around the world operate at secondary airports such as EasyJet in Luton, although some LCCs also operate at congested airports such as Oasis at the Hong Kong International airport. Secondary airports provide LCCs with three advantages. Firstly, it enhances the low cost strategy of LCCs. Normally, secondary airport charges are lower than that of main airports in terms of aircraft landing fees and passenger related charges. This enables LCCs to enjoy cost advantages regarding airport charges over competitors within main airports.

Operating from secondary airports also means less congestion as they have a shorter ground taxi time. Doganis (2001) claimed that average flight times can be reduced by 15-20 minutes because of shorter ground taxi time in less congested secondary airports. This reduced average flight time can help increase the frequency of flights. Therefore, LCCs can normally achieve a high frequency of flights. Hence, high aircraft block hours can also be achieved. Moreover, LCCs do not have to wait for available gates in under-utilized secondary airports as major airlines in major airports. The possibility of air traffic control (ATC) holding, which requires the aircraft to circle above the airport, is lower in less congested secondary airports.

Low Fares

As well as choosing the correct airport, LCCs have a different pricing philosophy compared to other airlines. Most LCC fares are low, simple and unrestricted, which means there are generally no complex conditions attached to them. Doganis (2001) stated that air fares offered by Southwest Airlines are 60%, or even more, below the prevailing air fares in the USA. Some fares offered by LCCs in Europe are 50% less

than incumbent airlines, while some of them are around 40% - 50% less than those offered by FSCs (Dobruszkes, 2006). The operators of LCCs believe that low fares can stimulate a tremendous amount of new travel (Freigerg, 1996). Lin (2001) studied ten routes of easyJet and found that they stimulated traffic by as much as 30% in the first year of operation. The low fares offered by LCCs enable more people to fly and lead to substantial passenger growth. The ability to boost traffic flow enables LCCs to gain a better position in airport negotiations, particularly with secondary airports. Most secondary airports are willing to offer discounts to LCCs because they know passenger flow can be stimulated. Discounts on airport charges also contribute to low cost strategies of LCCs.

Mono-fleet

In order to consistently offer low fares to the market, it is essential for LCCs to keep their costs as low as possible. Use of secondary airports as already mentioned is one major strategy which helps to reduce costs. Aircraft type is another issue which significantly affects operating costs. Most LCC fleets consist of only one type of aircraft, normally a Boeing 737 or Airbus 320. LCCs enjoy economies of scale regarding single aircraft type fleets in two ways which are 1), increasing pilot productivity and 2), reducing maintenance costs. As there is only one type of aircraft in the fleet, all pilots have the same operating qualification. Pilots can be swapped between flights enabling the crew roster to be more flexible and retains pilot to aircraft ratio as low as possible. Also, by keeping stock of aircraft spare parts to one type of aircraft only, it reduces stock holding related costs. Various aircraft types also require different engineer licenses. A fleet with a single aircraft type means they can simplify their engineering team which can also help to save costs.

No-Frills Service

The no-frills service enables airlines to increase available seats, lower the cost and shorten turnaround time. No-frills services mean that aircraft is installed with high density single class cabins, no seat pre-assignment, no in-flight entertainment and no meals provided. Without a business class section and galley, spaces can be freed up and the airlines can install more seats into the aircraft. Not serving meals also means that the airline can spend less time on the ground for cleaning and loading of on-board catering. Thus, the turnaround time can be shortened. Without business class and in-flight meals, LCCs can enlist fewer cabin crews. Hence, labour costs can be reduced. Most LCCs do not assign seats prior to boarding. Therefore, passengers have to enlighten earlier to ensure they get seats they prefer. This speeds up the boarding time and contributes to the punctuality of LCCs, which also helps maintain a quick turnaround time.

Point-to-Point operation

Most LCCs only provide point-to-point services in order to keep the service simple and the operating cost as low as possible, although a few LCCs, such as Jetstar and Cebu Pacific, do offer connecting flights. The majority of LCCs purposely avoid any interline operation which will increase their operating costs by requiring more ground handling facilities and prolonging the turnaround time of aircraft. Point-to-point operations, together with no-frills services, mean that LCCs only need simple airport facilities which can help them to keep their operating and airport costs low.

Direct Selling

Most LCCs are not involved in any global Central Reservation Systems such as Sabre, Galileo and Worldspan, which costs around US\$3 per booking. Hence, booking costs can be saved. Although some LCCs use travel agents as their distributors, most of them sell their tickets directly on the web and further reduce distribution costs by eliminating agent commission which accounts for 7% - 10% of ticket price. The cost of ticketing has been further reduced since the introduction of the e-ticket.

This section has briefly discussed product and operating characteristics of LCCs. However, this is a summary only, and does not provide an exhaustive list of product and operating characteristics. Each LCC is unique in its product and operating characteristics compared to each other. With their own unique features, LCCs are able to operate their flights at a lower cost than incumbent FSCs. The following section briefly explains why the business relationship between LCCs and airlines are studied.

1.5. *The Problem Statement*

For decades, airlines in Southeast Asia have mainly been national carriers, such as Thai Airways International, Singapore Airlines and Vietnam Airlines, while airports in the same region have mainly been government owned and managed, such as Hong Kong International Airport, Kuala Lumpur International Airport and Suvarnabhumi Bangkok Airport. It appears that relationships between national carriers and government owned airports are simply between two government institutions (Graham, 2003). Relationship development between them is mostly directed by

government goals and objectives. Hence the two interacting parties, national carriers and airports, are only implementing government decisions and commands together.

The relationships between LCCs and airports are totally different. Most of the LCCs in Southeast Asia are commercial organizations and need to make every effort to ensure return for their shareholders, while most airports in Southeast Asia are government owned and managed which may not aim only at commercial benefits. Both LCCs and airports strive for their own interests which may create barriers within their relationship. Disputes between LCCs and airports are common nowadays, such as discounts on airport charges. It appears that the knowledge of relationships between airlines and airports in the past can no longer be applied to LCC-airport relationships.

Building relationships between LCCs and airports means an extension of the network and an opportunity to generate income for both parties. Obviously, their relationship has significant implications on the future development of both parties. Recently, discussions between AirAsia and Hong Kong International Airport (HKG) went into deadlock because both had different approaches to establishing a business relationship (Barling, 2004). Therefore, there is a need for both LCCs and airports to understand why they want to establish a business relationship with each other and how they interact in order to make it successful. While previous studies have discussed the relationship between LCCs and airports, they mainly focus on aspects of the ability of the airport to earn aeronautical and non-aeronautical revenue from LCCs (Barrett, 2004; Francis et al., 2003; Francis et al., 2004; Graham, 2003). These suggest that there is a large gap remaining in the study of aviation management

regarding knowledge of LCC-airport relationships and how they interact with each other. Although the interacting model (IMP, 1982) has been introduced by previous research to study business-to-business relationships, it is mainly applied to buyer-seller relationships in industrial markets. The applicability of the interacting model (IMP, 1982) to LCC-airport relationships is still an unknown. Moreover, the interacting model (IMP, 1982) and other previous studies such as resources dependence theory (Hakansson & Snehota, 1995), power imbalance and mutual dependence (Casciaro & Piskorski, 2005; Lawler & Yoon, 1996), and mutuality (Ford et al., 1986; Johnsen & Ford, 2001), cannot explain why LCCs and airports want to establish a mutual business relationship. As the knowledge of airline-airport relationships in the past cannot be applied to LCC-airport relationships and there is no existing applicable theory, this research attempts to fill the research gap by exploring the development process of business relationships between LCCs and airports. The following section provides a set of research questions and objectives which serves to guide this study.

1.6. Research Questions

- 1 What are the pre-requisite constraints that restrict the freedom of LCCs and airports to start a business relationship?
- 2 Why do LCCs and airports want to establish a relationship?
- 3 How do LCCs and airports develop a relationship?
- 4 What are the factors affecting the development of LCC-airport relationships?
- 5 How do these factors affect the development of LCC-airport relationships?

1.7. Objectives

- 1 To identify the pre-requisite constraints that restrict the freedom of LCCs and airports to start a business relationship with each other;
- 2 To analyze the reasons why LCCs and airports establish relationships;
- 3 To examine and analyze how LCCs and airports develop relationships;
- 4 To identify the factors affecting the development process of LCC-airport relationships;
- 5 To evaluate the influence of factors on the development process of LCC-airport relationships; and
- 6 To construct a theory for explaining the development process of LCC-airport relationship in Southeast Asia.

1.8. Contribution of the Study

The contribution of this study is two-fold - academia and industry.

From the academic aspect

As more and more LCCs emerge in the market, LCC studies have been increasing in recent years, such as analysis of the geographical network of LCCs (Dobruszkes, 2006), the development and life cycle of LCCs (Francis, et al., 2006), competitive advantage of LCCs (Gillen & Lall, 2004), and the influence of LCCs on airport competition (Pels, Njegovan & Behrens, 2009). The relationship between LCCs and airports has captured the attention of several scholars, such as Barbot (2006), Francis, Humphreys and Ison (2004), Francis, Fidato and Humphreys, (2003). However, previous studies are mainly concerned with airport charge discounts given to LCCs and the importance of earning non-aeronautical revenue. The overall picture of

LCC-airport relationship development process has not been studied, while the research questions raised have not yet been explored. This research attempts to fill the research gap in contributing to aviation management studies, particularly by explaining why LCCs and airports want to establish a business relationship, how they interact with each other and what influences them in the relationship development process.

The European Cockpit Association (ECA) (2006) claims that the distinction between LCCs, FSCs and charter airlines is becoming blurred as some charter airlines in Europe have turned themselves into LCCs such as Air Berlin in Germany, while some FSCs are offering lower fares on particular routes. It may not be the case that LCCs, FSCs and charter airlines can no longer be distinguished as claimed by the ECA (2006). However, it is true that some FSCs such as British Airways, Lufthansa and Malaysia Airlines (Backx, Carney & Gedajlovic, 2002), have gone through the privatization process and are becoming more cost sensitive than before. These privatized airlines put pressure on airports in order to negotiate a better offer on airport charges (Graham, 2003). If the pace of airline privatization in the future is the same as it was during the last two decades, FSC-airport relationships would tend to be similar to LCC-airport relationships. This is because the privatized airlines would tend to be more cost conscious (Graham, 2003) and may behave like LCCs when negotiating with airports. An understanding of LCC-airport relationship development can act as a starting point to further study the privatized airline-airport relationships in the future.

From the industry aspect

An understanding of LCC-airport relationship development can contribute to both LCCs and airports by exploring practical issues such as why they wish to establish a business relationship. This inevitably involves discussions on LCC and airport selection criteria for each other, as well as what and how these factors affect development of the LCC-airport business relationships. This can provide insight into what LCCs and airports should be aware of during their negotiations. This study can provide an overall picture to LCCs and airports on how their relationships can be developed, which is particularly useful to new or existing LCCs wanting to establish new business relationships. On the other hand, this study can also contribute to airports in need of establishing or expanding business relationships with LCCs.

The way LCCs interact with airports is very different to traditional FSCs. The usual experience of airports in dealing with FSCs may not always be able to be applied in the case of LCCs. Moreover, many airports in Southeast Asia do not have any experience in dealing with LCCs. The negotiation between AirAsia and HKG went into deadlock in 2004. (Barling, 2004) suggested that both LCCs and airports need more practical research on each other in order to save business opportunities. Therefore, this study attempts to contribute to industry practitioners by investigating the LCC and airport selection criteria of each other, so that they can prepare their correct resources. This study also examined the interaction between LCCs and the busy as well as under-utilized airports, so that the study can contribute to them both. By providing them the knowledge through the results of this study, it will show them to how their potential business partners interact and what factors affect their

interaction. These research results enable a practical contribution to LCCs and airports alike.

1.9. Scope of study

The scope of this study is considered in terms of relationship and geography. The LCC-foreign destination airport relationship will be studied while geographic scope will be limited to Southeast Asia. The development of relationships between LCCs and foreign destination airports are identified as being different than that of LCCs and their base airports. The reason for this is that both LCCs and their base airports operate under regulations imposed by respective national and local governments. However, in the case of LCC-foreign destination airports, LCCs are confronted by regulations of both local and foreign destination government, while destination airports only deal with local regulations. Government and regulators have long been viewed as important players in the aviation industry (Doganis, 1991, 2001; Gidwitz, 1984). The development of relationships between LCCs and foreign destination airports involving both local and foreign government is recognized as being more complex than those of LCC-based airports. Therefore, by providing more insight into this study, only LCCs operating international routes will be examined.

The reason for limiting the scope of this study to Southeast Asia is that characteristics of the aviation industry within this region are more suitable for this purpose. This point can be clarified by comparing the situation of Southeast Asia to Europe and New Zealand. After the third package of liberalization, a single market has been formed in Europe. Rules and regulations of European Union (EU) countries follow European Commission (EC) practice, while the airspace of

European Countries is re-structured according to traffic flow instead of national boundaries (Eurocontrol, 2007). This means that a single sky and single market has been formed in Europe. Moreover, following the Memorandum of Understanding in 1992 agreed between Australia and New Zealand, the airline industry of these two countries also became a single market (Goh, 2001). A country under a single market means that they are under the same aviation rules and regulations, hence making the distinction vague between domestic and international flights. Therefore, Europe and Trans-Tasman routes are not chosen for the purpose of this study. Conversely, the situation of Southeast Asian Countries is totally different to that of Europe and New Zealand.

Whilst most countries in Southeast Asia, which include Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam, are members of the Association of Southeast Asian Nations (ASEAN), aviation agreement between them are mainly bilateral in nature (Forsyth, et al., 2006). This clarifies that the single market has not yet occurred in Southeast Asia, making the case of LCC-foreign destination airport relationships easily identified. As a result, Southeast Asia was chosen for this study.

1.10. Overview of the thesis

The introduction to this thesis, in general, covers the civil aviation industry and LCCs, the problem statement, research questions, objectives, significance and scope of the study. It is followed by literature reviews in Chapter Two and Methodology in Chapter Three. The literature review provides a detailed discussion on aviation rules and regulations, government attitude towards liberalization and development of

LCCs, aviation rules and airport regulations and the implications of these issues. It also covers the requirements between LCCs and airports, the relationships between airlines and airports, as well as theories and concepts related to their relationships. The Methodology chapter explains why the case study approach is selected. Also included is the research design, data sources, data analysis and limitations of this study.

CHAPTER 2. Literature Review

Liberalization is the necessary pre-requisite regarding the emergence of LCCs (Francis, et al., 2006). Dobruszkes (2006) claimed that the development of LCCs within Europe is highly correlated according to geographical areas of liberalization. However, liberalization has not occurred in Southeast Asia. The airline industry in Southeast Asia remains limited on a bilateral basis. Although regional multilateralism emerges in Southeast Asia, it remains as very minimal liberalization (Forsyth, et al., 2006). The outcome of negotiated BASAs or regional multilateral air service agreements (MASA) are basically according to international aviation regulations (Gidwitz, 1980) and national government policy, as well as government intention towards liberalization or protectionism (Forsyth et al., 2006). The outcome of negotiated BASAs and regional MASAs do in fact, determine which airports LCCs can have access to and establish relationships with. As claimed by Hooper (2005), market access cannot simply be taken for granted.

This section firstly covers international aviation regulations, BASA, multilateralism, national government intention toward liberalization and open skies as well as their intention toward the development of LCCs. It is followed by the discussion as to how the operation and business environment of airports are framed by aviation regulations. The relationships between LCCs and airports are subsequently discussed. Some previous research, such as Ford (1980), IMP Group (1982), Ford, et al. (1986), suggest that relationships can only be understood through investigation of the interaction process. This chapter also discusses the interaction model (IMP Group, 1982), its shortcoming in examining LCC-airport relationships, resource dependence theory (Pfeffer & Salancik, 2003), power imbalance and mutual

dependence (Casciaro & Piskorski, 2005), mutuality (Ford, et al., 1986) and capability (Ford, et al., 1986), in order to generate a more thorough picture of LCC-airport relationships development process.

2.1. *Aviation regulations related to LCCs*

Airlines do not operate in a free environment. A series of national and international regulations limits airline action. Consequently, the business environment of the airline industry is basically shaped by regulations (Page, 2005). There are three levels of regulations imposed upon the airline industry. These are international regulations, BASA or regional MASA and national air transport policies and regulations of an individual country (Gidwitz, 1980). Airlines, including LCCs, are affected and controlled by these three levels of regulations. They have to consider all of them simultaneously as their operations and businesses are embedded in this regulatory environment.

These three levels of regulation consist of two spheres, one of which is technical and operational and related to areas of safety (Wheatcroft, 1994) such as airspace control, meteorological service, aircraft air-worthiness and maintenance and repair criteria (Gidwitz, 1980; Wheatcroft, 1994). The second is political and economic, being concerned with sovereignty and commercial issues such as traffic rights, air fares and capacity (Doganis, 1991; Gidwitz, 1980; Wheatcroft, 1994). Regulations within the political and economic sphere are most relevant to this study. The three levels of regulations within the political and economic sphere are discussed in the following sections.

2.1.1. International aviation regulations

2.1.1.1. Basic principles of international aviation regulations

International civil aviation activities were disrupted during World War II. In order to re-organize the air transport system, the United States sponsored the Conference on International Civil Aviation in Chicago in 1944 and delegations from 54 countries attended the conference. This conference was known as the Chicago Conference in aviation history and affected the development of international air transport thereafter.

The Conference agreed that the most important principle was sovereignty, which stated that ‘each State has complete and exclusive sovereignty over the air space above its territory’ (Wheatcroft, 1994). Sovereignty provides the legal basis for traffic rights and enables countries to impose regulations on air services flying over or flying into their territories (Wheatcroft, 1994). All countries can forbid any international air transport services within their own boundaries, unless they are permitted (Havel, 1997). The right to provide commercial air transport services within a state, which can bring economic benefit, is viewed as a property of the state by many governments. The United States suggested open skies, which represented general freedom of the air (Havel, 1997) and let market forces determine supply of air services. This gained no support in the Chicago Conference. The process of discussion regarding traffic rights during the Conference was difficult and was never compromised between the attending states at international level. Instead, freedoms of the air were introduced during the Conference but the negotiation of traffic rights were left at bilateral level (Doganis, 1991; Gidwitz, 1980).

2.1.1.2. Freedoms of the Air

Freedoms of the air can be viewed as liberality of market access (Havel, 1997). A carrier can provide air transport services within a market only if they have obtained corresponding freedoms of the air. There are a total of nine freedoms of the air. The first and second freedoms are non-commercial rights which are not the focus of this study, while the fifth and sixth freedoms deal with beyond and transit traffic which are irrelevant to the operating characteristics of LCCs, therefore neither are discussed. The eighth and ninth freedoms, used to regulate domestic services, fall outside the scope of this study are also not discussed. Details of the third, fourth and seventh freedoms are discussed as follows:

Third Freedom of The Air – the right or privilege, in respect of scheduled international air services, granted by one State to another State to put down, in the territory of the first State, traffic coming from the home State of the carrier (also known as a **Third Freedom Right**) (International Civil Aviation Organization (ICAO), 2006a). For example, a Hong Kong registered airline needs the third freedom right from Japan if it wants to carry revenue traffic from Hong Kong to Tokyo.

Fourth Freedom of The Air – the right or privilege, in respect of scheduled international air services, granted by one State to another State to take on, in the territory of the first State, traffic destined for the home State of the carrier (also known as a **Fourth Freedom Right**) (ICAO, 2006a). For example, a Hong Kong registered airline needs the fourth freedom right from Japan if it wants to carry revenue traffic from Tokyo to Hong Kong.

Seventh Freedom of The Air – the right or privilege, in respect of scheduled international air services, granted by one State to another State, of transporting traffic between the territory of the granting State and any third State with no requirement to include such operation at any point in the territory of the recipient State, i.e. the service need not connect to or be an extension of any service to/from the home State of the carrier (ICAO, 2006a). For example, if a Hong Kong registered airline wants to bring revenue traffic between Taipei and Tokyo, without originating from or terminating in Hong Kong, the proposed schedule is entirely outside the airlines' registered home country, then it needs the seventh freedom right from both Taiwanese and Japanese governments.

Owing to the point to point service characteristic of LCCs, the third and fourth freedoms are most relevant. They are the pre-requisite rights that LCCs need to obtain in order to provide international services between its home country and the destination country. It was not long ago that Valuair was forced to cancel its maiden flight to Jakarta in May 2004 due to the traffic rights issue.

ICAO (2006a) describes the seventh freedom as 'so called freedom of the air' because it is rarely granted by states to foreign airlines. So far there has been no seventh freedom of the air exchanged between countries in Southeast Asia. This is because the seventh freedom simply contradicts another aspect of BASA, the principle of 'ownership and control' (Doganis, 2001). This is discussed further in the next section. The seventh freedom confines the development of LCCs, being between its home country and destination country only.

Therefore, the skies can only be fully opened if the principle of ‘ownership and control’ is removed. If the principle is removed, the seventh freedom will become meaningless (Doganis, 2001). Although the issue of the seventh freedom has very little implication towards LCCs in Southeast Asia today, it carries a significant implication on the development of LCCs, particularly when countries of the Association of Southeast Asian Nations (ASEAN) are moving towards regional liberalization or regional open skies.

Due to the principle of sovereignty, traffic rights are viewed as property of a state. Negotiation of exchanging traffic rights at multilateral level is never easy, as freedoms of the air were introduced at the Chicago Conference for bilateral negotiation. Freedoms of the air define liberality of market access granted by one state to another and determine where an airline can fly to, as well as to which airport it can access. Freedoms of the air are administrated by ICAO for countries to negotiate traffic rights in their BASAs (ICAO, 2006b).

2.1.2. The Bilateral Regulatory System and the Implication on LCCs

Following the failure of multilateral agreements regarding traffic rights at the Chicago Conference, many complicated BASAs exist within the air transport regulatory system (Gidwitz, 1984). The underlying objectives of BASAs are reciprocity, equal and fair exchange of traffic rights between countries which can be very different in size, have different political power and with airlines of varied strengths (Doganis, 1991; Gidwitz, 1984). As a result, countries and airlines with weaker aero-political status can also enjoy equal opportunities to participate within the international air transport market (Holloway, 1998).

The United States and the United Kingdom have become the two strongest civil aviation powers since World War II. They negotiated and achieved the first BASA in the world, The Bermuda Agreement I, which was the archetype for other countries (Gidwitz, 1984; Holloway, 1998). According to the model of The Bermuda Agreement I and the standard form suggested at the Chicago conference, other countries negotiated their own BASAs with looser or tighter control over their air services.

Although the regulatory control over air services varies between countries, the format of all BASAs is similar to one other. Normally, BASAs consist of administrative articles and economic provisions (Doganis, 2001). They well define the major elements of BASAs which are route, traffic rights, designation, ownership and control and capacity and tariffs. A detailed explanation of each major element and comparison between different types of BASAs is outlined below.

Table 2.1: Comparison of features between different types of BASAs (Doganis, 2001)

	Bermuda type BASA	The USA style of liberalized BASA*	European style of liberalized BASA#	Open skies BASA
Route	Only specified and limited number of points / routes can be operated by each airline.	Numbers of points in each state.	Open route access	Unlimited
Traffic right	Several fifth freedoms granted, but with limited capacity.	More extensive fifth freedom rights granted.	Very limited fifth freedom rights granted.	Unlimited fifth freedom
Designation	Generally single but some double or multiple.	Multiple designations.		
Ownership and control	Airlines must be under substantial ownership and effective control of nationals of designating state.			
Capacity	No frequency or capacity control: but subject to ex post facto review.	No frequency or capacity control.	No frequency or capacity control.	No frequency or capacity control.
		Change-of-gauge is permitted.		Change-of-gauge is permitted.
Tariffs	Tariffs equal to cost plus margin.	Double disapproval.	Double disapproval.	Double disapproval.
	Double approval.	Country of origin rules.		
	IATA procedures.			
Code Sharing	Not part of BASA.			Permitted.

*Examples include United States-Netherlands, United States-Singapore and United States-Germany.

Examples include United Kingdom-Netherlands and United Kingdom-Ireland.

Route

Route and traffic rights define the market access to airlines. Governments from both sides of a bilateral agreement can discuss how many points and also which cities are opened to airlines from each side (Doganis, 1991; Holloway, 1998; Wheatcroft, 1994). Designation of a specific airport to foreign carriers is also discussed in this

section (Gidwitz, 1984). This defines which airports can be accessed by foreign carriers from the other side of the bilateral agreement. As shown in Table 2.1, the extent of control over route ranges from the Bermuda type BASA, which specifies points and restricted numbers of routes, to the open skies BASA, which imposes no limitation on route.

Implication

In order to avoid congested airports and high airport charges, LCCs normally fly to secondary cities and secondary airports. Under traditional BASAs, LCCs hardly develop as only one or two main gateways are opened. Under the liberalized or open skies BASAs, airlines are allowed access to more secondary gateways which gives an opportunity to LCCs to develop (Forsyth et al., 2006).

Traffic rights

The exchange of traffic rights between two countries are negotiated according to the freedom of air. The first and second freedoms are incorporated into the International Air Service Transit Agreement (Doganis, 1998; Gidwitz, 1984) which is normally accepted by all countries. These are commercial traffic rights which are the third, fourth and fifth freedoms of the air that countries need to negotiate with each other. The sixth, seventh, eighth and ninth freedoms of the air are rarely negotiated and granted (Doganis, 1998; Gidwitz, 1984; Holloway, 1998). Normally, the agreement of the third and fourth freedoms is easily reached, with the fifth freedom drawing the most attention within the negotiation. Granting of the fifth freedom ranges from the Bermuda type BASA which normally offers only a number of fifth freedoms with capacity limitation to the open skies BASA which grants an unlimited fifth freedom.

Implication

Traffic rights are one of the very first issues that airlines have to handle in order to access a market or operate a route. Although most of the LCCs only need the third and fourth freedoms of the air, it very much depends on the willingness of governments to negotiate and exchange traffic rights and routes between each other (Gidwitz, 1980). Without traffic rights, airlines, as well as LCCs, simply cannot operate the route, even though there is demand from the market.

Designation of airlines

In this section, the number of airlines designated to fly on a specific route is outlined (Doganis, 2001). There are two types of airline designation; one is single while the other is multiple. Single designation means that only one airline from each country, normally the national carrier, can operate the specified route; while multiple designations mean that two or more airlines from each country can operate the specified route (Wheatcroft, 1994). In the case of multiple designations, sometimes one of the airlines is designated as a second carrier on the specific route which can only operate when traffic on that route exceeds a certain level (Holloway, 1998). Normally, countries with a strong aviation industry which have more than one international airline, advocates to multiple designation, while developing countries with only one national carrier will only support a single designation (Wheatcroft, 1994). Countries in the Bermuda type BASA usually accept a single designation although there are some double or multiple designations available. Multiple designations are common practice in the case of the open skies BASA.

Implication

Within traditional BASAs, only single designation would normally be agreed (Doganis, 2001). In this case, LCCs definitely do not have a chance to enter the market. Under the liberalized or open skies BASA, although multiple designations become more common (Doganis, 2001), names of carriers sometimes still need to be stated within the agreement. As a result, the LCC depends upon willingness of the government to designate it on the list.

Ownership and control

At the Chicago Conference, the attending representatives agreed that any airline should be ‘substantially owned’ and ‘effectively controlled’ by the citizens of the country concerned (Holloway, 1998). This principle has been widely adopted within all types of BASAs. However, there is no universally agreed definition of ‘substantially owned’ and ‘effectively controlled’ (Doganis, 2001; Holloway, 1998; Wheatcroft, 1994). Traditionally, the limitation of foreign ownership varied from 25% to 49% from country to country (Wheatcroft, 1994). Meanwhile, most countries impose a strict rule on control which limits the foreign role in decision making of the airlines concerned (Wheatcroft, 1994). This clause of ownership and control prohibits the seventh freedom of the air being granted between countries.

Implication

Even under the most liberalized open skies agreement, airlines are still under the limitation of ‘substantial ownership and effective control’. The freedom of foreign capital to register, merge or acquire LCCs or airlines in most countries is restricted.

This rule strictly limits foreign investment (Forsyth et al., 2006) and the development of LCCs, even in the region with multilateral liberalization.

Capacity

Capacity is the available payload of an aircraft multiplied by the frequency of a specific route (Gidwitz, 1984). The control of capacity aims to achieve a general balance between capacity supply and traffic demand in order to ensure a surplus of supply to absorb late bookings and seasonality peak traffic (Gidwitz, 1984). There is no frequency or capacity control within any type of BASA, however, the Bermuda type BASA enables countries to call for revisions if adversely affected by their competitors. The USA style of the liberalized BASA and open skies BASA entitles airlines to change aircrafts at route transit points in order to use the airline fleet more efficiently.

Implication

High frequency is one of the major operating characteristics of LCCs. The operating philosophy of LCCs is to minimize ground time and maximize flying time of each aircraft. This is in order to maximize utilization of the aircraft, achieve high block hour and minimize unit cost (Dobruszkes, 2006). The regulations on capacity and frequency within the traditional BASA simply contradict the operating philosophy of LCCs. Unlike the traditional BASA, the liberalized and open skies BASA remove all limitation on capacity and frequency which favors the development of LCCs.

Tariff

Traditionally, tariffs are negotiated by airlines at the IATA tariff conference and are subject to government approval. Various types of approval principles exist within different BASAs. These range from the most conservative Bermuda style double approval to the open skies style double disapproval. Double approval means that tariffs can only be published if governments at both ends of the route approve it. As stated in Doganis (1991), “the ultimate control of tariffs rests with governments”. The primary objective to control of tariffs is to maintain the airfare significantly above the cost structures of national carriers (Holloway, 1998). The double disapproval system means that the tariff cannot be published if both governments object to it (Doganis, 1991, 2001; Holloway, 1998) which also means that signing governments are giving up their veto power on tariffs (Doganis, 1991). Country of origin means that countries can approve fares for routes starting within their sovereignty. This enables the signing governments to have a more flexible policy on tariff making while the government at the end of the route does not want to (Doganis, 1991; Holloway, 1998). However, governments adopting the concept of countries of origin cannot affect the tariff approved by the government at the other end of the route (Doganis, 1991).

Implication

Fares offered by LCCs are considered to be 40% - 50% lower than traditional full service airlines (Dobruszkes, 2006). This substantially low fare stimulates demand for travel from new market segments (Forsyth et al., 2006). However, tariff control imposed by traditional BASAs give no room for LCCs to cut fares. Under the liberalized and open skies BASA, the principle of double disapproval has emerged.

This means that governments give up their veto power to tariff, even though the fares offered by LCCs are substantially lower than those offered by national carriers.

Code sharing

Code sharing is not included in the liberalized BASA and is not allowed on route to the USA because it is against their anti-trust law. (Doganis, 2001). But it is permitted under the open skies BASA which enables airlines to extend their network with their partners easily and effectively (Doganis, 2001). Under the open skies BASA, the signing countries are given anti-trust immunity for code sharing which becomes a tool for the USA in attracting those countries to go into the open skies BASA. If foreign countries refuse to advance market liberalization, their airlines will not be allowed to access the USA market by code sharing with US carriers (Doganis, 2001).

Implication

Code sharing is not common practice with LCCs because it involves co-operation between at least two airlines which inevitably incurs an increase in cost. LCCs normally avoid anything that will add burdens to its cost structure.

The BASA has evolved from the traditional type to that of liberalized, and finally the open skies style of today, with a different extent of limitations to the major elements discussed above. There is no single definition of open skies which could be in the form of bilateral or multilateral. In comparison to the traditional Bermuda BASA, it is a totally different approach to air transport regulation. According to Holloway (1998), the traditional approach of the BASA is “no, unless yes is specifically

negotiated and agreed”. However, the open skies approach is “yes, unless something is specifically prohibited”. The open skies BASA aims to remove all economic regulatory control on international air services. This allows airlines to access the market and compete freely in terms of routing, capacity, fare, and code sharing.

Liberalization and open skies are necessary to the development of LCCs (Francis, Humphreys, Ison & Aicken, 2006) as they can only operate under an environment without limitations on route, capacity and tariff (Forsyth et al., 2006). As suggested by Sadubin (2004), the general manager of the Centre for Asia Pacific Aviation, ‘the process of LCC entry has been the process of liberalization’.

It must be mentioned that the type of BASA and its content varies from country to country and from time to time. The above summary of various BASA types is only a rough picture. The details of each BASA are different even if they fall under the same category. It is also true that the liberalized and open skies BASA existed later than the traditional one; however, these three styles exist simultaneously in the world today. Even within the same country, it is possible that there is a different style of BASA with different counterpart countries. In fact, the style of the BASA is affected very much by national aviation policies and regulations, also the intention towards liberalization and open skies of both negotiating national governments.

ASA is not necessarily in the form of bilateral, instead, it can be multilateral. In order to further expand open skies, the USA and other governments such as the UK, the Netherlands and Singapore, are pursuing multilateralism (Doganis, 2001).

However, it is not easy to achieve multilateralism universally while regional multilateralism is only happening in some areas of the world.

2.1.3. Multilateralism

Multilateralism means that a single MASA in a global context is to replace all existing BASAs (Holloway, 1998). The United States tried to promote the MASA, but failed to do so. This is because it is practically unfeasible (Holloway, 1998). There are approximately 4,000 BASAs in the world (Europa, 2006), which vary in extent of liberalization to each other in terms of route, traffic rights, designation of carrier, ownership and control, capacity and tariff. It is practically impossible to satisfy every nation's attitude towards liberality of air transport with one MASA. As a result, universal multilateralism fails to be achieved. Instead, regional multilateralism has emerged (Holloway, 1998) in several areas of the world, which include Southeast Asia.

2.1.3.1. Regional multilateralism in Southeast Asia

Regional multilateralism is a MASA between a regional group of countries, or between a regional coalition and other countries, or between two regional coalitions which have similar ideas on liberalization (Holloway, 1998). The main objective of most regional MASAs is to liberalize commercial regulatory control upon air services (Holloway, 1998).

The culture, history, economic status and policy stances vary widely between Asian countries (Forsyth, et al., 2006). As a result, Asian countries and their attitude towards air service regulations range from protectionism, such as China and Japan, to

liberalization, such as Singapore and Thailand. The Association of Southeast Asian Nations (ASEAN) discussed moving towards open skies by initiating the phased liberalization of air services in sub-regional groupings. The sub-regional groups, such as Brunei-Indonesia-Malaysia-Philippines-East Asia Growth Area (BIMP-EAGA) established in 1994, has a high priority toward aviation cooperation (Holloway, 1998); Cambodia-Laos-Myanmar-Vietnam group (CLMV) also adopted a MASA of unlimited capacity and unlimited traffic rights which included the fifth freedom right; the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) also agreed limited open skies agreements with each other member state (Forsyth, et al., 2006). These sub-regional groups launched a progressive liberalization of air services in the ASEAN by providing greater market access and flexibility (Forsyth et al., 2006). However, with the diversity between ASEAN countries, these sub-regional open skies agreements are nothing more than minimal liberalization. Meanwhile, BASA is still the most common form in regulating the Asian aviation environment (Forsyth et al., 2006; Jones, 2002; Kua & Baum, 2004).

The features of different types of BASAs and MASAs have been discussed. By comparing and contrasting the operating characteristics of LCCs and features of the liberalized and open skies BASA, it is not difficult to understand why LCCs can only operate under liberalization or open skies. The extent of liberalization of the ASAs basically reflects the policy stances of protectionism or liberalism by negotiating governments (Holloway, 1998). Where a government desires protectionism or liberalization, the reasons behind this are more likely to be that of national interest (Forsyth et al., 2006; Gidwitz, 1984; Holloway, 1998; Wheatcroft, 1994).

2.2. National government inclination towards protectionism or liberalization

National interest is the main driver of government preference toward protectionism or liberalization (Forsyth et al., 2006; Gidwitz, 1984; Holloway, 1998; Wheatcroft, 1994). However, countries differ to each other considerably in terms of GDP, aviation and the tourism industry. As a result, they have a different point of view toward national interest (Forsyth, et al., 2006).

2.2.1. Reasons behind government inclination toward protectionism

Scholars such as Doganis (1991), Forsyth, et al. (2006) and Gidwitz (1984) suggest that a stable airline industry, the benefits to national carriers, air safety, national defense and sovereignty are national interests concerning governments preferring protectionism.

Stable airline industry

These countries believe that the airline industry is an infant industry (Holloway, 1998; Wheatcroft, 1994) and a public utility (Doganis, 1991; Wells & Wensveen, 2004). Without regulations, airlines are not strong enough to compete in a free market (Holloway, 1998), then overcapacity (Wells & Wensveen, 2004), price war (Doganis, 1991) or even discontinuity in the supply of air services (Wheatcroft, 1994) can be the result. Commercial and social welfare of the country can be affected severely (Wells & Wensveen, 2004). This philosophy has been prevailing in many countries for several years in justifying their intention towards protectionism (Doganis, 1991).

National airline

Many countries see the benefit of their national carriers as an important issue toward national interest (Doganis, 1998; Forsyth et al., 2006; Jones, 2002; Wheatcroft, 1994). National airlines are a tool to earn foreign exchange and avoid expenditure on foreign airlines. National airlines can provide local employment opportunities which can promote the local economy and also retain the necessary skills of operating an airline within its own country. Many local industries such as manufacturing, freight transport and tourism, depend on air services. A stable national airline is essential to the development of these industries. Supporters of liberalization and open skies argue that foreign airlines can also provide the same level of air service. However, foreign airlines are always viewed as unreliable (Wheatcroft, 1994). This becomes a strong reason for countries to protect their own national carriers.

Public utility

Air transport is traditionally viewed as a public utility (Wells & Wensveen, 2004). This is assumed to provide a linked service for social responsibility, political (Holloway, 1998) or diplomatic reasons (Gidwitz, 1984), even though those routes are commercially non-viable.

Ensuring air safety

It is believed that airlines are not able to maintain a good standard of safety if their financial status is weak (Doganis, 1991). Regulation is seen as the way to stabilize the airline industry, making them able to invest in air safety (Holloway, 1998; Wells & Wensveen, 2004).

Enforcement of national defense and sovereignty

World War II and the Korean and Vietnam wars proved that national airlines of the United States played an important role in national defense by providing airlift services for the military (Wells & Wensveen, 2004). During wartime or disaster, national airlines can also provide evacuation services to that society. Regulation is also a way to control the movement of airlines which in turn enforces sovereignty over a state's own airspace (Holloway, 1998).

2.2.2. Reasons behind government inclination toward liberalization

According to Gillen and Morrison (2005), it is suggested that the airline industry is mature enough to survive in a more open market position by being developed under market competition forces rather than economic regulation. Since the 1970s and 1980s, the USA government has been striving for more liberal or open skies BASAs when negotiating with other countries (Holloway, 1998). These negotiations have encouraged 73 countries to sign open skies BASAs with the USA and are moving towards gradual liberalization of their aviation policies. Nonetheless, the willingness of a government moving towards liberalization depends on the fact of bringing national interest to their country (Forsyth et al., 2006; Gidwitz, 1984; Holloway, 1998; Wheatcroft, 1994). Countries favoring liberalization may see their national interest as noted in the following section.

Strong Airline industry

Countries with strong airlines such as Singapore and the USA, normally favor liberalization because it brings opportunity to their airlines to further develop their business in a new market (Forsyth et al., 2006).

Pursuance of greater operation efficiency

Protectionism towards national carriers normally leads to inefficient operations and financial loss. Some countries are trying to escape this financial burden by privatizing the national carrier (Graham, 2003; Page, 2005; Wheatcroft, 1994), for instance the British government privatized British Airways in the 1980s. Major justification to privatization of national carriers is achieving greater operation efficiency (Graham, 2003; Page, 2005). Without government subsidies, airlines need more commercial room in order to operate in a more efficient way which can facilitate their profitability (Holloway, 1998). Liberalization appears to be the way forward in pursuing them more commercial room. It is true that liberalization is normally accompanied by privatization of the flag carrier (Holloway, 1998) while privatization seems to contribute to minimizing protectionism within aviation policies (Wheatcroft, 1994).

Consumer benefit

Some countries, particularly member countries of the Organization for Economic Co-operation and Development (OECD), increasingly recognize the fact that the focus of aviation policy must shift from protecting the flag carriers to enhancing consumer benefits. It is believed that liberalization can bring more competition and will eventually enable existing airlines to operate more efficiently. As a result, consumers can enjoy cheaper airfare and better services (Holloway, 1998).

The benefits of liberalization being brought to a country, depends on how much air travel can be generated. For countries that do generate much air travel, e.g., Singapore, low fares can definitely benefit their nationals. If benefits to consumers

and the tourism industry outweigh the loss of the national carrier, governments of these countries are likely to welcome liberalization (Forsyth et al., 2006).

Tourism development

The relationship between tourism and airline industries is inherently a contradiction. On the one hand they complement each other, while on the other they conflict with each others' benefits (Wheatcroft, 1994). There is no doubt that air transport facilitates international travel. This is confirmed by the fact that 45% of all international tourists arrived by air in the year 2005 (United World Tourism Organization (UNWTO), 2006). However, Wheatcroft (1994) believed that the traditional view of protecting the financial benefits of national carriers would result in high air fares which would impede tourism development. Liberalization brings more competition, lower fares and more travel at the same time (Forsyth et al., 2006). More travel means more financial benefits to the tourism industry. Earnings from tourist receipts often give motivation in the development of transport to facilitate the tourism industry (Page, 2005). Countries of whose governments are willing to move towards liberalization, believe that the gains brought by liberalization to their tourism industry outweigh the loss to their national carriers. For instance, in order to support the development of tourism, Malaysia granted more liberalized traffic rights to the countries offering reciprocal rights (Forsyth et la., 2006).

Airport development

Malaysia positioned the Kuala Lumpur International Airport to compete with Singapore as a regional hub in Southeast Asia (Forsyth et al., 2006). In order to support the development of the airport, the government prefers a more liberalized

aviation policy which allows more airlines access to their airport. At the same time, KLIA also gives incentives in order to attract more airlines to use their airport. On the other hand, airport capacity can be a scarce resource (Europa, 2006), particularly in major cities and busy airports. These airports may need their government to adopt a more liberal aviation policy to enable the building of more secondary airports in order to relieve airport congestion.

Regional development

Tourism development plays an important role in regional economic development (Wheatcroft, 1994). Liberalization that allows airlines access to secondary cities may bring in more tourists to help develop the tourism industry within these cities.

As previously mentioned, national interests can affect governments intention towards protectionism and liberalization, which in turn determines the outcome of BASAs and the pace of open skies (Holloway, 1998), hence the possibility of emergency LCCs and from which airports LCCs can fly is determined. In general, governments do not consider the development of LCCs when deciding their aviation policy, but it is true that liberalization gives an opportunity for LCCs to develop (Forsyth et al., 2006). Government preferences towards protectionism and liberalization are likely to have an impact on the development of LCCs. However, do government attitudes towards LCCs have any impact on the LCC-airport relationship development?

2.3. Government attitude towards LCCs

There are a mass of previous research studies discussing open skies and the government inclination towards it, such as Chang, Williams and Hsu (2004), Elek,

Findlay, Hooper and Warren (1999), Forsyth et al. (2006), Hooper and Findlay (1998). However, the attitude of governments towards LCCs has rarely been studied, with the exception of Kua and Baum (2004). Kua and Baum (2004) clearly stated that government support is the major fundamental issue in the development of LCCs. Even if a government adopted a liberalized aviation policy, it does not necessarily mean that the government supports the development of LCCs. It was not long ago, in March 2005, that the Indonesian Government refused landing rights to a Singapore LCC, Jetstar Asia. It announced that it would limit the presence of LCCs in the market (Ortolani, 2005), although the Indonesian Government had already adopted a relatively liberalized aviation policy at that time. Following this, the Singapore Government rejected an Indonesian LCC, PT AWAIR (now named PT Indonesia Air Asia), flying into Singapore (Ortolani, 2005). This illustrates how the attitude of a government may have a significant impact on route development of LCCs.

The Singapore government states clearly that ‘unused traffic rights will be allocated among competing users in a manner that optimizes national interests’ (Straits Times, 2003). Obviously traffic rights will be allocated to an LCC if it can bring with it national interests, or at least not to harm national interests. Hitherto, national carrier (Doganis, 1991; Forsyth et al., 2006; Jones, 2002; Wheatcroft, 1994), tourism development (Forsyth et al., 2006; Francis et al., 2006; Kua & Baum, 2004; Wheatcroft, 1994) and airport development (Forsyth et al., 2006; Francis et al., 2004) have long been viewed as national interests which may be affected by LCCs.

Tourism development

There is a wide belief that LCCs can benefit tourism development. Mr. John Koldowski, strategy director of the Pacific Asia Travel Association in Bangkok, is of the opinion that the LCC is one of the reasons in causing the current tourist boom within the region (Blume, 2006). The Tourism Authority of Thailand (TAT) also believes that LCCs can increase the number of foreign tourists to Thailand during weekends and also during long holiday periods. As a result, TAT claimed that they need LCCs to enable development of the country's tourism industry (Jirasakunthai, 2001). In order to meet tourism arrival targets, the Philippine government welcomes overseas LCCs to operate in their country (Samonte & Amojelar, 2006). Philippine Government policy is even more open by not only supporting local LCCs, but also that of foreign LCCs. It appears that governments throughout Southeast Asia are willing to support the development of LCCs as an instrument to develop their own tourism industry (Kua & Baum, 2004).

National carrier

Many governments, particularly those in Southeast Asia, still protect their own national carriers (Jones, 2002; Kua & Baum, 2004) and view them as of major national interest (Doganis, 1991; Forsyth et al., 2006; Jones, 2002; Wheatcroft, 1994). The emergence of LCCs means more competition and lower market airfares (Forsyth et al., 2006). There is a wide belief that LCCs steal the market from national carriers or those incumbent airlines. Therefore, many governments are still very cautious regarding the emergence of LCCs. However, Mr. Low Chee Teng, the CFO of Malaysia Airlines (MAS), stated that in fact the traffic of MAS slightly increased because AirAsia, the Malaysian LCC, stimulated traffic (Ramos, 2003). Mr. Teng

expressed that it is good to have AirAsia in Malaysia (Ramos, 2003). An anonymous banker from Malaysia claimed that AirAsia can only exist if MAS, the state-controlled carrier, wants it to be there (Jones, 2002). Based upon the story of AirAsia, it appears that a government can support the emergence of LCCs only if it does not harm the interests, or even bring benefits to, their national carriers.

Airport

As well as the national carrier and tourism industry, airports are of additional major national interest. In order to protect the interests of the national carrier, the government has to limit competition which could mean less business or less potential business to the airport. The former Prime Minister of Singapore, Mr. Lee Kwan Yew stated that Singapore has both a hub airport and a national airline which is important to their economy. However, should the Singapore Government come down to a choice, it would be that of the hub airport (Sadubin, 2004). It therefore boils down to the point as to whether LCCs can benefit the airport. Experiences within Europe show that LCCs can bring significant business opportunities to secondary airports. However, is it the same case in Southeast Asia? Are there any under-utilized airports in Southeast Asia? In the late 1990s, it was extremely difficult to get a slot at any airport in Southeast Asia (Kua & Baum, 2004; Jones, 2002). With the construction of new airports in Southeast Asia, such as Kuala Lumpur International Airport (KLIA) and Bangkok International Airport (Suvarnabhumi Airport), the capacity problem was eased (Jones, 2002). In 2002, AirAsia was refused by their government to continue its operation at Sultan Abdul Aziz Shah (SAAS) airport in Subang. Instead, they were requested to move to KLIA (Jones, 2002). According to Mr. Raja Azmi Raja Razali, the CFO of AirAsia, the reason for this was because KLIA was an

under-utilized airport at that time and the government wanted the LCC to fill the unused capacity (Ramos, 2003). Singapore and Malaysia opened a budget terminal in 2006 which provides further airport capacity within the market. Both governments are eager to encourage LCCs to fly into their countries in order to fill the unused airport capacity and develop into regional LCC hubs within Southeast Asia (“Malaysia opens,” 2006).

For the sake of national interest, countries may welcome or hold back LCCs. Some countries in Southeast Asia, such as Singapore, Thailand, Malaysia, the Philippines and Indonesia welcome LCCs and grant them traffic rights to facilitate tourism development (Blume, 2006). Even more aggressively, Singapore and Malaysia governments have built budget terminals in order to facilitate the development of LCCs. These two countries are in competition with each other in order to be the hub for LCCs within Southeast Asia. The Transport Minister of Malaysia, Mr. Chan Kong Choy, stated that the Malaysia government wants to develop the country to be a regional hub for LCCs (“Asia’s 1st,” 2006). The support of government has contributed significantly to the mushrooming of LCCs within these countries. It appears that government attitude can facilitate or impede the development of LCCs. However, does government attitude affect the development of LCC-airport relationships? If it does, does the government intervene directly or indirectly? The Prime Minister of Malaysia, Mr. Abdullah Badawi, urged all parties involved in the operation of the budget terminal to be service-oriented in order to attract more LCCs (“Malaysia opens,” 2006). It appears that the government can influence the relationship between LCCs and airports in order to facilitate the development of LCCs. This research is going to study how government attitude towards the

development of foreign LCCs affects the relationship between LCCs and airports. The establishment of business relationships between LCCs and airports is not one-sided; instead, the airport situation should also be taken into account. The following section discusses regulations which may influence the development of LCC-airport relationships.

2.4. Airport

Airlines cannot operate without airports. The airport, as a kind of terminal facility, provides a context for embarking and disembarking passengers and ensures that demand and supply of airline services are met smoothly (Page, 2005). The basic facilities of an airport consists of runways, taxiways, apron space, gates, passenger and freight terminals, ground transport interchanges, (Graham, 2003) and commercial facilities which are highly profitable (Page, 2005), such as shops and restaurants, hotels, conference services and car parks (Graham, 2003). In addition to the air transport industry, airports also play an important role in the economics of a country as it brings substantial employment opportunities and great wealth (Graham, 2003).

2.4.1. Regulations imposed on airports and their implications

Similar to the airline industry, airports are also subject to international, bilateral and national regulations. The regulations consist of different operational aspects of the airport, such as safety, security, environmental and economical. This study focuses on the economic regulation only. Basically, there are three main economic regulation issues. These are ownership and control of airports, airport charges and airport capacity allocation (Graham, 2003).

Ownership and control

There is a long debate as to whether an airport is a public utility or commercial activity. IATA claims that airports are a type of public utility which should not be profit oriented when considering airport charges (Page, 2005). However, many researchers such as Francis et al., (2003) and Graham (2003) argued that the airport operating environment is becoming increasingly competitive to a means whereby commercialization can be a way to increase their cost and operational efficiency. Governmental practice of ownership and control over its airports reflects their point of view on the issue as to whether it is viewed as a public utility or commercial activity. According to Doganis (1992), four types of airport ownership exists across various countries. These are public ownership with direct government control, public ownership with airport authority management, mixed public and private ownership and control and finally, private ownership.

Ownership and control of an airport has major implications on its financial resources, hence the pricing strategy is affected (Page, 2005). There are three main-stream financial airport sources which are government aid and subsidy, cross-subsidization and operating income. Airports that are owned and controlled by government receive periodic government subsidies. This is a traditional source of finance for many airports (Doganis, 1992; Graham, 2003). Sometimes several airports can be under the same airport corporation and ownership. To this effect, major international airports may provide cross-subsidy to smaller airports within the same corporation group (Graham, 2003).

Many airports rely heavily upon their operating income as a main source of finance. The two main streams of airport income are aeronautical income and non-aeronautical income (Doganis, 1992). Aeronautical income includes landing fees, airport air traffic control charges, aircraft parking, passenger charges, freight charges and charges for apron service and aircraft handling. On the other hand, non-aeronautical income includes rental income from airport tenants, recharge to tenants for utilities and services provided, concession income from duty free shops, direct sales from shops operated by the airport authority, revenue from car parking and land or hotel development (Doganis, 1992).

The proportion of aeronautical income and non-aeronautical income vary from airport to airport. Airports in London are making around 50% of their total revenue from the aeronautical source. The USA, with a significant proportion of LCC traffic in its domestic market, has an aeronautical income of up to 23% of total airport revenue, while non-aeronautical revenue is the main source of income (Doganis, 1992). However, Doganis (1992) purports that the aeronautical income will continue to be a crucial source of revenue for airports worldwide as they can modulate aeronautical charges whenever there is any revenue loss.

Implications

As discussed, ownership and control of an airport can reflect its role within that country. In the extreme case of government ownership and direct control, the airport is simply viewed as a government department to be used in achieving their goals in respect to social, economical and tourist elements. Under these circumstances, airports can be significantly affected by government policies in different areas. For

example, a government owned regional airport in Southern Europe (Francis et al., 2004) cooperated with the local tourist authority to offer a very good economic package to a LCC in order to attract it to serve the airport. The motivation behind this was the expectation of increasing inbound tourists brought by the LCC which in turn could benefit the local economy. The economic benefit of the airport was sacrificed for the sake of the local economy. In this case, it showed that under the context of government ownership and control, the government does not evaluate the benefits to the airport independently, instead, the economic benefit of the society is considered as a whole. In another extreme case of a privatized airport with independent control, the airport is viewed as a commercial activity rather than a means to achieve government goals. Under the context of commercialization, airports are more autonomous in achieving maximum and effective use of airport capacity (Graham, 2003) by implementing different pricing and marketing strategies in order to attract or discourage LCCs if airport capacity is limited. In the spectrum of government to privately owned and controlled airports, the airports vary in their degree of autonomy, source of finance, management structure (Graham, 2003) and economic and marketing strategy (Doganis, 1992; Graham, 2003). These elements can affect the willingness and intention of an airport to deal with LCCs or full service carriers (FSCs) as different types of carriers need a different range of services (Barrett, 2004; Warnock-Smith & Potter, 2005).

Airport charges

Airport charges are the general term of all charges bringing in aeronautical income. ICAO provided a set of guidelines for airport charges specifying that such charges shall not discriminate between users, especially from different countries; and charges

should be cost related. Although these guidelines are for reference only and are open to different interpretation, most airports adopted these guidelines and thus resulted in similar pricing regimes (Graham, 2003). As well as international guidelines, airport charges can be subjected to the limitation of bilateral agreements. For instance, the Bermuda II agreement between the UK and the USA limited airport charges to be cost related and to a reasonable profit (Graham, 2003).

National governments normally exert control over determining airport charges. In some countries airport management can only change the charges with government approval; sometimes the government is directly responsible in determining airport charges; some airports can determine their own charges totally independent of government control (Graham, 2003). No matter which regime is practiced, each government can impose regulations to control airport charges for the sake of the airports or to avoid airports abuse of naturally monopolized market power, particularly by privatized airports (Graham, 2003). Some countries may have regulations to limit the discount of airport charges offered to airlines (Francis et al., 2003), such as the Rome Treaty in EU countries, which in turn affects the ability and willingness of the LCCs to operate at the influenced airports.

Implications

Apart from aircraft rental and maintenance, airport charges are the third largest operating cost of LCCs which accounts for 17.5% of direct operating costs (Doganis, 2001) and 13% of total costs (Doganis, 2001) while it only accounted for approximately 6% of total costs for FSCs (Graham, 2003). As LCCs have already kept all other necessary costs as low as possible, airport charges become significant

to the composition of their cost structure (Graham, 2003). Additionally, LCCs usually operate short haul flights which mean that they pay airport charges more frequently. Therefore, the ability of an airport to offer discounts becomes an important issue to LCCs. Many LCCs, particularly those in Europe, are aggressive in negotiating a significant discount on airport charges (Barbot, 2006; Barrett, 2004; Graham, 2003; Francis et al., 2004; Warnock-Smith & Potter, 2005).

Graham (2003) claims that there is difficulty in observing the impact of airport charges on airline behavior in general. However, Graham (2003) also claims that the ability of airports to offer discounts has a significant impact on LCCs, particularly when new routes are being considered. Francis et al. (2004) claims that one particular LCC in Europe abandoned its plan of a new route after the airport refused to offer the requested discount. Meanwhile, Francis et al. (2004), Francis et al. (2003) and Gillen and Lall (2004) observe that LCCs in Europe move their operations to other airports which grant them a better deal, or even withdraw the route if they cannot obtain a good discount from that airport. Obviously, a discount on airport charges is a critical factor to LCCs when choosing a suitable airport for their operation (Graham, 2003).

A most likely scenario is that under-utilized airports with spare capacity depend very much on operating income. Therefore, the under-utilized airports without government subsidies are more willing to offer discounts to LCCs in order to encourage more traffic to their airports. After the initial investment made to airport facilities, the additional investment of handling extra traffic is very low. This makes the marginal cost diminish significantly, as traffic can increase up to 1.5 million-3

million Work Load Units (WLUs) per annum (Graham, 2003). WLU is defined as a passenger or 100kg of cargo. Due to the low additional investment and diminishing marginal cost of accommodating extra traffic, most under-utilized airports are willing to offer a significant discount to LCCs in order to reach the critical WLUs (Francis et al., 2004).

The most commonly discounted airport charge is to waive or reduce the landing fee during the first few years of route operation so that LCCs pay the passenger charge only. If the route demand during the first few years is low, then the LCCs only have to pay very little. Using this practice, airports are in fact sharing part of the risk when LCCs are developing new routes (Graham, 2003). In the majority of cases, management of these airports can expect new traffic to bring in additional non-aeronautical income which can compensate the loss of aeronautical income (Barrett, 2004). Therefore, it becomes a critical issue to airport management that they have resources and capabilities to generate non-aeronautical income to cover the loss associated with discounted airport charges.

The discounts on airport charges can help to reduce direct operating costs of LCCs. However, instead of offering direct discounts on airport charges, occasionally airports may lower other related charges such as departure tax, in order to help promote LCCs. For instance, the new budget terminal in Malaysia determined the departure tax to be 22% lower than that of KLIA. This was in order to attract passengers to travel on LCCs operating at their airport (“Asia’s 1st”, 2006).

However, not all airports are willing to offer such discounts to LCCs, particularly those airports serving FSCs. FSCs normally pay the full fee, so airports may have to face an equity issue between FSCs and LCCs (Graham, 2003). It is also questionable as to whether those airports receiving government subsidies are willing to offer such discount to LCCs.

Airport capacity allocation

Slot is the most critical part of airport capacity. There are two slots required by the airline in order to operate a route, these being airport slots and air traffic control (ATC) slots. Airport slot refers to the airport arrival and departure time while the ATC slot refers to landing and take-off times assigned to airlines by the ATC authority (Graham, 2003). In addition, the capacity of stand, boarding gate and terminal can all affect the operation of a route at the same time (Gowrisankaran, 2002; Graham, 2003).

The steady rise in air traffic volume has led to airport capacity, particularly the airport slot, to be a scarce resource throughout the world (Europa, 2006; Graham, 2003). Airlines, as well as LCCs, can only operate a route with an available slot at both airports on either end of the route. Traditionally, slot allocation mechanism follows that of the International Air Transport Association (IATA) Schedule Coordination Conference which is a type of industry self-regulatory system (Graham, 2003). IATA has categorized airports into three levels of which are non-coordinated airport (Level 1), schedule facilitated airport (Level 2) and coordinated airport (Level 3). Level 1 relates to airports with adequate capacity to meet demand from airlines (IATA, 2006a); level 2 relates to airports with demand approaching their capacity,

but that the capacity problem can be resolved through voluntary co-operation between airlines (Graham, 2003; IATA, 2006a); level 3 relates to congested airports with excess demand over airport capacity, where voluntary co-operation between airlines cannot resolve the capacity problem, then formal procedures are needed to allocate the available capacity (IATA, 2006a).

The major principle of these formal procedures is that of ‘grandfather right’ which means that the airline that engaged and operated a slot during the previous similar season has the preferential right to operate it again (IATA, 2007), as long as they operated 80% of the flights within the designated slot (Doganis, 1992; Graham, 2003). In other words, ‘grandfather right’ is subject to the rule of ‘use it or lose it’ (Doganis, 1992; Graham, 2003; IATA, 2007). Another basic principle of slot allocation is the maximum effective use of airport capacity (IATA, 2007). Therefore, priority is given to a scheduled service, rather than a chartered service (IATA, 2006a); preference is also given to airlines planning to use the slots more intensively which means that daily service has a higher priority than weekly service (Graham, 2003).

As well as international guidelines given by IATA in slot allocation, national governments have their own rules and regulations imposed on this issue as this is important in terms of market access and competition (IATA, 2007). The most remarkable example is that of the EU, which introduced slot allocation regulation in 1993 (Graham, 2003; IATA, 2007). Whilst the main objective of the IATA guidelines is to avoid unnecessary airport congestion, the major aim of EU slot allocation regulation is to enhance competition and encourage new entrants (Graham, 2003). With different intentions and objectives, national governments impose

different rules and regulations on airport capacity allocation (IATA, 2007) such as long haul international preference, least noise nuisance aircraft preference, large aircraft preference, long term lease agreement, slot trading and slot auction mechanism (Graham, 2003). Government objectives can sometimes contradict each other (Graham, 2003; IATA, 2007) or rules between governments can be incompatible (IATA, 2007).

Implications

The major issue of the LCC operation is whether they can obtain airport slots. Most LCCs fly into level 1 airports which are still under-utilized (Barbot, 2006; Barrett, 2000; Francis et al., 2003; Francis et al., 2004; Gillen & Lall, 2004). Intuitive thinking may lead to the conclusion that the problem of airport capacity is not perplexing LCCs. However, in reality, it is not unusual that LCCs operate in congested level 3 airports. For instance, Oasis operates out of Hong Kong International Airport, Jetstar at Singapore Changi International Airport and easyJet at Paris Charles de Gaulle Airport. Once LCCs operate at congested level 3 airports, they are faced with the problem of scarce airport capacity and are subject to 'grandfather right' limitation. It therefore becomes an uncertainty as to whether LCCs can be allocated the desired time slot. On the other hand, from the perspective of the congested level 3 airport, LCCs may have no attraction to them (Barrett, 2004) so they may not offer any discount to LCCs.

Airports are regulated in regard to the aspect of ownership and control, airport charges and airport capacity allocation. These three aspects have significant implications on LCC operations. The ownership and control of airports basically

defines their economic and marketing strategy (Doganis, 1992; Graham, 2003) which in turn affects their willingness and ability to allow LCCs to use them. Expenditure on use of airport facilities accounted for a significant proportion of LCC operational costs (Doganis, 2001). Therefore, discount on airport charges becomes a critical factor in determining the willingness of LCCs when flying into a particular airport. Airport capacity is a fundamental issue to both airports and LCCs. The availability of airport capacity determines whether they can accommodate the LCC or whether the LCC can land and take-off from that particular airport.

In addition to the question of whether government attitude affects the development of LCCs, this research also studies whether governments intervene in relationship development between LCCs and airports through airport financing, airport charges or airport capacity allocation. If governments do so, how they intervene in the development of LCC-airport relationships is examined.

Discussions regarding regulations and government attitudes are only the first steps for LCCs to enter the market and be given the chance to develop a relationship with airports. However, it does not mean that LCCs and airports will establish a relationship with each other just because the chance is given. Previous research indicates that organizations will build a relationship with each other only if they seek to gain from the counterpart, they operate a function for their counterpart (Ford et al., 1986) or they hold the resources that are needed by their counterpart (Pfeffer & Salancik, 2003). The following sections discuss what services or capabilities of LCCs and airports are required and can offer each other.

2.5. LCCs requirement of airports

Owing to the polar differences in operating characteristics between LCCs and FSCs, LCCs have their unique requirements when choosing airports. In order to start a business relationship, it is important to match the LCC needs with what airports can provide. Previous research (Barrett, 2004; Francis et al., 2003; Francis et al., 2004; Warnock-Smith & Potter, 2005) suggests requirements such as low airport charges, quick turnaround time, spare airport capacity, convenient slot time, single-storey airport terminals, quick check-in, good airport catering and shopping, good facilities for ground transport, high potential demand for LCC services and no executive / business class lounges. The significance of low airport charges and spare airport capacity regarding LCCs have already been discussed in section 2.4.1, therefore the remaining requirements are discussed in the following paragraphs.

Quick turnaround time

Quick turnaround time is an effective way to keep costs low and increase operation productivity. This is because quick turnaround time enables LCCs to maximize aircraft utilization and minimize aircraft ground time (Gillen & Lall, 2004). In the USA, Southwest Airlines achieves a longer block hour of 7-15% (Doganis, 2001) when compared to FSCs. Quick turnaround time has enabled LCCs to fly approximately two extra rotations per day which has contributed significantly to the results of high aircraft utilization (Barrett, 2004). The research findings of Barrett (2004) is coincident with the study of Warnock-Smith and Potter (2005), both of which find that quick turnaround time is the second most important airport choice factor for LCCs. In contrast to FSCs, LCCs require only 25minutes turnaround time compared to FSCs, which normally need one hour. The achievement of quick

turnaround time is dependent on whether the airport can provide efficient ground handling services and convenient facilities, such as quick check-in facilities (Barrett, 2004) and parking bays directly next to the terminal (Francis et al., 2004).

Quick turnaround time is possibly one of the major reasons why LCCs normally operate at non-busy secondary airports. Busy airports mean a slower turnaround which contradicts the operating characteristics of LCCs. Therefore, logical thinking leads to the fact that LCCs may not want to serve at congested airports and likewise, busy airports may find no interest in having an LCC in operation either (Barrett, 2004). However, in reality, LCCs do operate at level 3 congested airports, i.e., Cebu Pacific flies to Hong Kong International Airport (HKG) and AirAsia flies to Bangkok International Suvarnabhumi Airport (BKK). This research is going to study why LCCs and busy airports are willing to establish a business relationship with each other.

Convenient slot time

Research by Warnock-Smith and Potter (2005) reveals that convenient slot time is one of the important airport choice factors for LCCs. However, an interview carried out by Barrett (2004) with Mr. Michael O’Leary, the Chief Executive of Ryanair, has not mentioned convenient slot time as an important airport requirement of LCCs. This may be because the target market of LCCs is leisure travelers who are willing to travel at a less convenient time in exchange for a lower fare.

Single storey airport terminal

Single storey airport terminal means that arrival and departure passengers are handled on the same floor. This arrangement helps LCCs keep the cost low and is also convenient for their passengers. Mr. Michael O’Leary ranks this element as the third important airport requirement of LCCs (Barrett, 2004), while Francis et al. (2004) also claim that a single storey airport terminal can keep the operation as simple as possible and can avoid using air-bridges which is an extra cost to LCCs. However, the research of Warnock-Smith and Potter (2005) do not include this item into the study of airport choice factors for European LCCs. Moreover, for security reasons, single storey airport terminals may not be practical for the operation of international routes.

Quick check-in

Quick check-in facility is one way to achieve quick turnaround time. In contrast to FSCs, LCCs are offering a simple point to point service, which means that they do not have to process complex check-in procedures for interlinking and onward journeys, seat allocation, separate business and first class accommodation and frequent flyer points (Barrett, 2004). These factors lead to the fact that LCCs only need a simple check-in facility in order to keep the check-in procedure smooth and efficient.

Good catering and shopping facilities

From the airport perspective, good commercial facilities are business opportunities that generate non-aeronautical revenues. Francis et al. (2003) and Francis et al., (2004) claim that non-aeronautical revenue is a good financial source to compensate

airport discounts given to LCCs. However, Gillen and Lall (2004) claim that they find no evidence to support the fact that LCC passengers spend more money on airport concessions than FSC passengers. LCC passengers may not spend more than FSCs passengers; nevertheless, they are still business opportunities for airports and their concessionaries.

Mr. O’Leary states that good catering and shopping facilities such as meals and magazines are needed by LCC passengers, as LCCs do not provide any in-flight services, (Barrett, 2004). Therefore, commercial facilities are an additional service to LCC passengers, which in turn helps promote the services of LCCs. As mentioned by Mr. Abdullah, the Prime Minister of Malaysia, the budget terminal of Malaysia must be service-oriented in order to gain a competitive edge over their neighboring countries (“Malaysia opens,” 2006). From the perspective of LCCs, good commercial facilities improve convenience and services to their passengers, hence it can be one of the factors affecting decision making when choosing an airport.

Good facilities for ground transport

Good facilities for ground transport, such as bus services, car hire facilities and discounted car parks, are important to LCC passengers (Barrett, 2004). These facilities affect direct accessibility to the airport, as well as attractiveness of the flight services provided. Good ground transport can also help to enlarge the catchment area of regional airports that are usually more remote from major cities.

High potential demand for LCC services

Warnock-Smith and Potter (2005) declare that substantial potential demand for LCC services is the most important airport choice factor for LCCs. Potential demand is affected by airport catchment areas and LCC airfares. Efficient ground transport can help the airport enlarge the catchment area which actually facilitates airports and airlines in reaching more potential passengers. With potential passengers, the LCCs can stimulate demand with low fares. Gillen and Morrison (2003) claim that LCCs are ‘market making’ airlines that can stimulate demand by offering significant low fares to the public and can attract passengers who have never considered flying before. The CFO of Malaysia Airlines, Mr. Low Chee Teng, also said that AirAsia stimulates traffic (Ramos, 2003). Although Mr. O’Leary (Barrett, 2004) mentions nothing about potential demand as an important airport choice factor, it seems reasonable for LCCs to investigate the catchment area of an airport before they actually fly to it. This research examines this factor and whether it affects LCCs in their choice of airports. If it does affect their choice, it follows as to how potential demand surrounding the airport affects the relationship development between LCCs and airports.

No executive / business class lounges

Keeping it basic is an important strategy to minimize cost and increase productivity of LCCs (Gillen & Lall, 2004). LCCs only need simple facilities and services from airports which can minimize cost and provide convenience to their passengers (Sanyal, 2005). However, executive or business class lounges carry an increase in total airport costs which in turn puts pressure on airport charges. LCCs basically view executive / business class lounges as a high-cost and gold-plating facility

(Barrett, 2004). Meanwhile, LCCs normally only offer economy class as they are simply not willing to bear the cost of such a service that they do not use.

As the operating philosophy of LCCs is to provide a basic product such as point-to-point and no-frills service, they only require the most basic facilities and services from airports. The requirements of a single storey airport terminal, quick check-in and no executive or business class lounges are all in relation to keeping the operation simple. The basic operation is essential in achieving quick turnaround time which has a significant impact on productivity and operating costs of LCCs. As well as the basic operation, potential demand for LCC services and convenience to LCCs passengers are also important when choosing an airport. Potential demand for LCC services can be affected by the catchment area and transport connection of that airport. Convenience is facilitated by convenient slot time and good commercial airport facilities. Much previous research regarding airport requirements by LCCs are conducted in the context of Europe (Barrett, 2004; Francis et al., 2003; Francis et al., 2004; Warnock-Smith & Potter, 2005). In addition, there appears to be contradictions in previous research on this matter. This study attempts to investigate this issue in the context of Southeast Asia.

As suggested in previous research, interaction only makes sense if the organizations can gain from their counterpart (Ford et al., 1986) or they can provide what their counterpart needs (Pfeffer & Salancik, 2003). The needs of both LCCs and airports should be considered simultaneously. The needs of LCCs from airports have been discussed in this section. The following section discusses what airports need from LCCs.

2.6. Airport requirements of LCCs

For the busy airports, LCCs may not be of interest to them (Barrett, 2004). Because of limited airport capacity, management of congested airports may not want to give any discount on airport charges to LCCs (Francis et al., 2004). In fact, the busy airports do not need to attract any airlines in terms of discount in order to fill their capacity. However, as previously stated, discounts on airport charges are one the major factors affecting airport choice by LCCs. For the under-utilized airports or those willing to offer discounts, they obviously need something in return in order to compensate reduced aeronautical revenue. Previous research, such as Barrett (2004) and Warnock-Smith and Potter (2005), only study the airport requirements by LCCs. The airport requirements of LCCs are rarely studied. This research is going to investigate what airports need from LCCs in exchange for offering discounts. Some information from the mass of literature available suggests that two factors may be taken into account when airports consider discounts to LCCs. These are sustainability of LCCs within their airports (Francis et al., 2003) and the ability of LCCs to increase passenger throughput; hence the non-aeronautical revenue can be increased (Francis et al., 2003; Francis et al., 2004).

Sustainability of LCCs within airports

As mentioned in section 2.4.1, under-utilized airports are willing to waive the landing fee for the first few years in order to help LCCs in the development of new routes (Graham, 2003). The possibility of collecting the landing fee from the LCCs in later years depends very much on the sustainability of LCCs within their airports. From the experience of Europe and the USA, it is not unusual for LCCs to withdraw the route from these airports or suddenly going bankrupt (Francis et al., 2004; Gillen

& Lall, 2004). This is also happening in Asia, such as Oasis Airlines in Hong Kong which went bankrupt in 2008.

Ability of LCCs to increase passenger throughput

The ability of LCCs to increase traffic flow to airports is the primary reason for the airports to serve the LCCs. Without the revenue from landing fees, passenger charges become the major component of aeronautical revenue. In addition to passenger charges, spending on commercial facilities by LCC passengers is the major operating revenue of airports. Many previous researchers, such as Francis et al. (2003) and Francis et al. (2004), claim that non-aeronautical revenue is important in compensating the loss of aeronautical revenue. The income from passenger charges and the opportunity to earn non-aeronautical revenue depends very much on passenger throughput by LCCs. From the perspective of the airports, in order to cover the loss of aeronautical revenue, the capability, i.e. equipped with sufficient commercial facilities to generate non-aeronautical revenue is an important issue (Francis et al., 2003). This is because the marginal cost of airports to handle an additional passenger is very little (Graham, 2003). However, if the airports need to invest substantially to generate commercial revenue, then sustainability of the LCCs become an important determining factor.

From the above discussion, it can be tentatively assumed that sustainability of LCCs within airports and the ability of LCCs to increase passenger throughput, are the requirements by airports from LCCs. This research examines whether these two factors are significant to airports when considering the establishment of business relationships with LCCs. It also explores the possibility as to whether there may be

any other deciding factors. This research also studies how these factors can affect the development of the relationship between LCCs and airports. After a brief review of the characteristics of these two interacting parties and the legal environment surrounding them, the relationship between LCCs and airports is discussed in the following section.

2.7. *The Relationship between LCCs and airports*

Having a good relationship with airlines is crucial to airports because this determines what air services can be offered by them (Graham, 2003). At the same time, a good relationship with the airport is also crucial to airlines as airport facilities are an essential and critical resource to enable them to provide flight services. However, only a few researchers, such as Graham (2003), Francis et al. (2003) and Francis et al (2004) address the issue of the relationship between airlines and airports. Previous researchers have discussed the relationship between the FSC and airport, as well as the relationship between the LCC and airport. This has mainly been taken from the airport aspect and in its ability to earn aeronautical and non-aeronautical revenue (Barrett, 2004; Francis et al., 2003; Francis et al., 2004; Graham, 2003).

Historically, most airlines are national carriers while most airports are government owned and controlled. The airline-airport relationship was typically a relationship between two state owned organizations (Graham, 2003). However, deregulation and liberalization gave rise to LCCs and from there, the gradual commercialization of airports has made relationships between LCCs and airports different to those seen in the past by airline-airports (Francis et al., 2004). Today, LCC-airport relationships can be between two commercial organizations or a commercial and state owned

organization. The nature of their relationship depends on the ownership and control of the airport.

Traditionally, the agreements between airlines and airports state the condition of use of facilities and services provided by the airport in exchange for aeronautical fees paid by the airlines (Graham, 2003). This is a simple dyadic buyer-seller relationship (Albers, Koch & Ruff, 2005) with both the buyer and seller under government control. Under this type of relationship, passengers are viewed as part of the airlines business while airports have very little intention to obtain revenue from passengers (Francis et al., 2004).

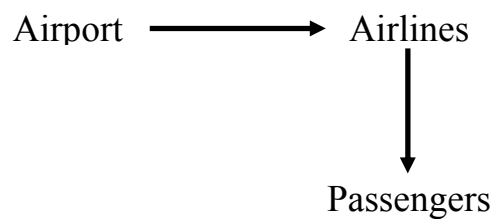


Figure 2.1: Airline-airport relationship: traditional model (Francis et al., 2004)

As shown in Figure 2.1, airports view airlines as their primary customers (Francis et al., 2004; Graham, 2003) in the traditional relationship. As a result, airports heavily rely on aeronautical revenue.

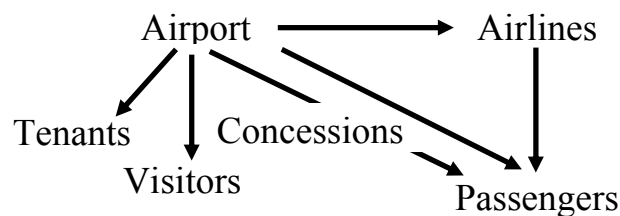


Figure 2.2: Airline-airport relationship: new commercial model (Francis et al. 2004)

Francis et al. (2004) suggests a new commercial model for airline-airport relationships as shown in Figure 2.2. From this suggestion, airports have also

explored different sources of income to generate non-aeronautical revenue such as car park fees from visitors, concession fees from ground parties and rent from shops. Francis et al (2004) argues that airline-airport relationships are gradually becoming more complex due to increasing numbers of commercialized airports and privatized airlines. Airlines have become very cost minded for the sake of their own financial performances and as a result, aeronautical charges are under continuous scrutiny by them (Graham, 2003). This situation is more apparent when the airlines concerned are LCCs. LCCs often attempt to negotiate for discount on aeronautical charges. Some airports, particularly those that are under-utilized, are willing to offer a discount to LCCs in order to attract more traffic (Barrett, 2004). In order to compensate for the loss of aeronautical charges, airports must tap into a new source of income. Currently, the most readily sourced airport revenue is that of non-aeronautical income such as concessions, tenants and visitors, (Francis et al., 2004). However, the possibility of collecting landing fees once again after a few years depends very much on business sustainability of LCCs. In addition, all non-aeronautical income depends heavily on passenger throughput. As a result, airport management is linking their operating revenue to the LCCs ability to increase traffic flow. A concept of risk sharing is therefore emerging into the LCC-airport relationship which is rather new in terms of aviation management. It appears that this new concept is pushing their relationship towards a much closer and complex one than that of the traditional airline-airport relationship seen in the past.

The new commercial model (Francis, et al., 2004) as shown in Figure 2.2 mainly concerns the new participants such as tenants, visitors and concessions existing in airlines-airport relationships and the importance of non-aeronautical airport revenue.

Development of the relationship between LCCs and airports is not discussed. This new commercial model is a good starting point in understanding the relevant participants that exist within LCC-airport relationships. However, many other factors discussed in previous sections should be taken into account in order to understand the development of LCC-airport relationships. These are regulations on aviation industry, ownership and control patterns of airports, and the ability of the LCC to increase passenger throughput. As stated at the beginning of this section, airline-airport relationships are mutually important to both parties. Unfortunately, comprehensive and systematic research regarding LCC-airport relationships has not been conducted to date. To this end, this research strides into this area of study in order to fill the gap within aviation management.

According to Graham (2003), airports provide airport facilities and services to airlines in exchange for aeronautical fees. An analogy may be drawn between LCC-airport relationships and buyer-seller relationships. However, their relationship is not a pure commercial buyer-seller relationship. The reason for this is that governments own or manage most airports and can therefore have an influence on their behaviors as they are not solely concerned about commercial benefits to themselves. This research takes the commercial buyer-seller relationship as a starting point and incorporates the government factor and other identified factors from the research process in order to generate a theoretical framework for understanding the development of relationships between LCCs and airports in Southeast Asia.

2.8. Buyer-seller relationship

Buyer-seller relationships aroused a great deal of attention from researchers in the academic field, such as Ford et al. (1986), Hakansson and Gadde (1992), Hakansson and Snehota (1995), Hakansson and Ford (2002), Gelderman and Weele (2004), Holmen, Roos, Kallevag, Raesfeld, Boer and Pedersen (2005) during the past few decades. Business relationships exist in various forms such as joint ventures, strategic alliances or simple buyer-seller relationships. In fact, business relationships exist wherever there is an exchange or interaction in preparation of an exchange between two parties.

However, the word 'relationship' is not easy to define. Hakansson and Snehota (1995) tentatively define the word relationship as a 'mutually oriented interaction between two reciprocally committed parties.' Mutually oriented interaction implies that the relationship has produced something which cannot be achieved individually by any party within the relationship (Hakansson & Snehota, 1995) and indicates that there is some kind of special organizational form at an aggregate level above that of the individual company (Hakansson & Ford, 2002). In this sense, it can be imagined that interdependence exists between two parties in a relationship, in which the two parties are mutually demanding and mutually rewarding simultaneously (Hakansson & Snehota, 1995).

In order to understand the buyer-seller relationship within the industrial market, the Industrial Marketing and Purchasing (IMP) Group introduced an Interaction Model in 1982. The aim of developing this model was to produce a comprehensive picture of buyer-seller relationships; to understand the factors that could affect their

relationships; to characterize the nature of their relationships in different situations; to examine, prove and explain the variations in their relationships.

As discussed in the previous section, LCC-airport relationships are not pure commercial buyer-seller relationships. Therefore, the Interaction Model (IMP Group, 1982) can serve as the starting point to further study the development of LCC-airport relationships.

2.9. *The Interaction Model*

The IMP Group (1982) and other researchers such as Brennan, Turnbull, and Wilson (2003), Dwyer, Schurr and Oh (1987), Ford, (1980), Ford and Hakansson (2005), Ford et al. (1986), Hakansson and Snehota (1995), and Johnsen and Ford (2001), view the exchange between industrial buyers and sellers as an ongoing process instead of a single discrete transaction. In other words, the relationship is to be built up by many individual exchange episodes (IMP Group, 1982). The IMP Group (1982) also argues that industrial buyers do not generally respond to marketing mix variables manipulated by sellers. Instead, interaction between individual buyers and sellers is important in the development of their relationships because both buyers and sellers are active within it. The interaction model emphasizes that there are limited number of buyers and sellers in the industrial market that know each other that well in realizing each others' movements. Therefore, the industrial market is comparatively stable compared to the retail market. Moreover, both buyers and sellers have the same task in searching a suitable business partner, to make a request or offer control of the transaction process. In this sense, the IMP Group (1982)

claims that the characteristics, actions and reactions of both buyers and sellers have to be analyzed simultaneously in order to understand their relationships.

These arguments may also be applied to LCC-airport relationships. Firstly, transactions between LCCs and airports are rather long term, involving negotiations, interaction and operation during a certain period of time. The purchase of airport services by LCCs is not in the form of a single discrete transaction. Instead, a contract between LCCs and airports normally lasts for a few years, while co-operation between them needs to be co-ordinated from time to time. Secondly, in similarity to the industrial market, there are not many LCCs or airports within the aviation market. They also know each other very well and are aware of others movement within the market. Thirdly, both LCCs and airports also take the initiative in searching for a suitable counterpart and attempt to control the transaction. It appears that the Interaction Model (IMP Group, 1982) is well suited to examine the LCC-airport relationship. However, the Interaction Model (IMP Group, 1982) was developed purely from the perspective of commercial to commercial, while LCC-airport relationships usually involve government influences which make their relationship a non-pure commercial one. Therefore, this study only takes the Interaction Model (IMP Group, 1982) as the starting point in order to explore the LCC-airport relationship.

Traditionally, the interaction approach (IMP Group, 1982) is applied to the buyer-supplier relationship in exchange of products. However, the application of this approach in the case of business relationships in exchange of services (Wynstra,

Axelsson & Valk, 2006), such as Woo and Ennew (2004, 2005) and Liang and Lian (2005), are increasing.

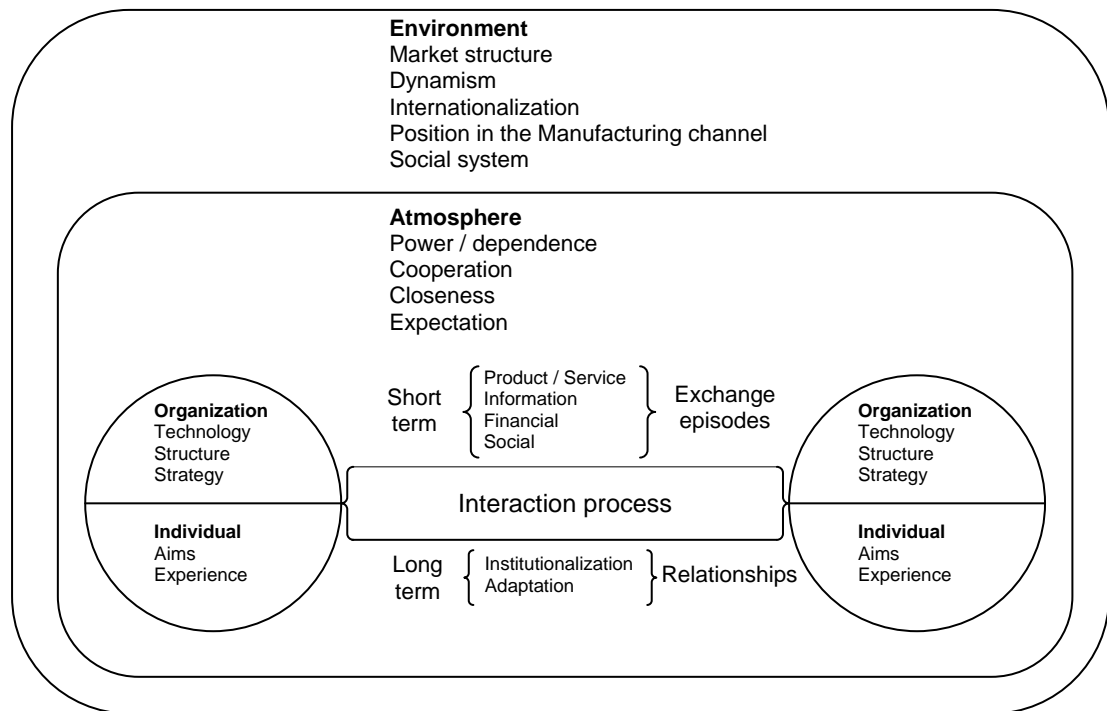


Figure 2.3: The Interaction Model (IMP Group, 1982)

Figure 2.3 illustrates four groups of variables within the model, which are the: 1) organizations involved, 2) elements and process of interaction, 3) environment where interaction takes place, and 4) atmosphere affecting and affected by the interaction. The model not only identifies these four groups of variables but also analyzes the relationship between them (IMP Group, 1982).

2.9.1. The interaction process

Owing to the general long term buyer-seller relationship within the industrial market, the IMP Group (1982) studies both individual episodes and the ongoing long term relationship, and how the long term relationship affects and is affected by the individual episodes. An episode is an occurrence of exchange between buyer and

seller (IMP Group, 1982) while a long term relationship is built up by a chain of episodes (Hakansson & Snehota, 1995). There are four types of exchange in the short term episodes. They are product and service, information, financial and social, while the long term relationship can result in institutionalization and adaptation (IMP Group, 1982).

Exchange episode

Products and services are often the ‘core of exchange’ which has a significant impact on the relationship (IMP Group, 1982). Before, during and after product and services are exchanged, there is usually a lot of information exchanges regarding what, how or when the products and services should be exchanged. Financial exchange is another major component of interaction as airports provide airport facilities to LCCs for exchange of the aeronautical fee. In the case of LCCs and airports, it can be more complicated in that it cannot only take the aeronautical revenue into account, but also that of the non-aeronautical revenue from LCC passengers. This is because the total operating income that the LCCs can bring to the airport is that of aeronautical and commercial revenues.

During the process of the other three types of exchange, it is inevitable to have social exchanges between the LCCs and airport by their personnel. Previous research, such as Hakansson and Snehota (1995) and the IMP Group (1982), suggest that successive social exchange is a function to interlock two organizations with each other, together with the successful execution of the other three types of exchange. Thereafter, personal friendships, social contacts and mutual trust and confidence can be developed. The IMP Group (1982) also argues that many aspects of the agreement

between buying and selling companies are not fully formalized nor based on legal criteria, but are based on mutual trust. In addition, Komppula (2000) also suggested that the personal relationship play an important role in the cooperation between small travel agencies. However, as the operation and interaction of LCCs and airports are bound by regulations, the social exchange between individuals may not influence LCC-airport relationships.

This research adopts the view of previous researchers and investigates the development of LCC-airport relationships in terms of episodes of their interaction processes. However, this research does not confine the investigation to the four types of exchange episodes suggested by the IMP Group (1982). This is because the Interaction Model (IMP Group, 1982) is based on buyer-seller relationships within industrial markets which may not be fully comparable as far as LCC-airport relationships are within the aviation industry. Because of this, the author designed an interview guide which allows interviewees from LCCs and airports to tell the story of their interaction. The author expects the interview guide to help capture snapshots of the episodes as well as the important features of their interaction.

Long term interaction

Institutionalization

The IMP Group (1982) suggests that successive exchange episodes over a period of time will create a routine exchange process, and then both buyers and sellers will have an expectation of their counterparts. Halinen (2002) defines institutionalization as a process of establishing various norms-patterns of behaviour and expectations of the parties within a relationship. Ford (1980) suggests that institutionalization refers

to various rules, customs and standard operating procedures emerge within a business relationship. Halinen (2002) suggests that institutionalization is a dimension of cooperation which contains expectations of future behaviour. Institutionalization may exist in the contractual or non-contractual form, such as customs, which are established during interaction. For the majority of time, the institutionalized exchange process will not be queried by either party and hardly altered by rational decision making (IMP Group, 1982). Woo and Ennew (2004) suggest that high level institutionalization means a high level of co-operation within the relationship.

Adaptation

Adaptation refers to one organization or both organizations in a dyadic relationship which tend to modify their products or services or rules of conduct (Ford, 1980; Hakansson & Snehota, 1995) or sacrifice their benefits (Johnsen & Ford, 2001) from time to time in order to achieve cost advantages, access to the counterpart's unique capability or resources, or develop and maintain a long term relationship (Johnsen & Ford, 2001). Brennan et al. (2003) defines adaptation as 'behavioural or organizational modifications at the individual, group or corporate level, carried out by one organization, which are designed to meet the specific needs of the other organization.' Adaptation is viewed as an essential investment for the sake of developing and continuing an existing relationship (Johnsen & Ford, 2001) which can reduce cost, increase revenue and be used as a tool to control the business relationship (IMP Group 1982).

Once an organization participates in adaptation, it means that this organization believes that the long term relationship can bring benefit to itself and is willing to commit to the future of the relationship (Johnsen & Ford, 2001). This is because the investment of adaptation to one relationship is normally non-transferable to another (Brennan et al., 2003; Hallen, Johanson & Seyed-Mohamed, 1991). When two organizations mutually adapt, it means that both parties are willing to invest to benefit the relationship and commit to its future (Johnsen & Ford, 2001). Mutual adaptation ties the two organizations together which is constraint and empowerment (Hakansson & Snehota, 1995) to both organizations at the same time. The binding is a type of constraint because the cost of leaving the relationship for both organizations is high. It is empowerment to both organizations because it can prevent the counterparts from leaving the relationship (Hakansson & Snehota, 1995). The IMP Group (1986) suggests that adaptation can be a conscious strategy that organizations can choose to implement or not, which can purposely develop a close or distant relationship. However, Brennan et al. (2003) claims that there is no significant association between adaptations and relationship closeness. They suggested further research on this is required.

Adaptation is not necessarily mutual. It could be the case that either one of the organizations in a relationship continuously adapts to their counterpart. The investment made by the adapted organization is beneficial to the counterpart rather than the relationship itself (Hakansson & Snehota, 1995; Johnsen & Ford, 2001). Brennan et al. (2003) suggests that adaptation by the supplier is far greater than adaptation by the customer. Also, Hallen et al. (1991) suggests unilateral adaptation is due to imbalance dependence between the parties. The adapted organization loses

its autonomy in making decisions for itself and the relationship. Instead, it has to accept the imposed strategy from the counterpart (Johnsen & Ford, 2001).

LCCs in Europe are rather foot-loose (Francis et al., 2003; Francis et al., 2004). It is not uncommon for LCCs in Europe to withdraw the route from one airport and move it to another one. The situation in Southeast Asia seems more stable. However, airport facilities are all fixed, making it relatively difficult to make adjustments, particularly for LCCs. This research examines whether institutionalization and adaptation can happen between LCCs and airports. If institutionalization and adaptation can be found, this research will further examine whether mutual or unilateral adaptation is happening between LCCs and airports as well as why such patterns of adaptation have been formed.

2.9.2. The interacting parties

The IMP Group (1982) concerns both the organizational and individual level within the Interaction Model. They claim that organizations with various structures, strategies and technological levels, together with the individuals who work within the organizations, will affect the interaction process in a different way. However, the items mentioned, which are only the characteristics of organizations, cannot illustrate why the organizations are willing to interact with each other. Ford et al. (1986) states that organizations will interact with each other only if they can operate a function for their counterparts or want to gain from their counterparts, while Pfeffer and Salancik (2003) claim that organizations must hold some resources which are needed by their counterparts. Therefore, the concept of capability (Ford et al., 1986) and resources (Pfeffer & Salancik, 2003) are conscripted into the study in order to

understand why LCCs and airports establish a relationship with each other. The details of capability and resources are further discussed in the following sections.

The organizational structure is viewed as background information of organizations studied which may influence their resources and capabilities. For instance, the ownership and control of an airport can affect its source of finance. Technology of the organization is part of their capability. This study does not address technological capability only, but also other aspects of LCC and airport capabilities. Strategies adopted by them in dealing with each other during their interaction processes are studied in detail.

As already mentioned, social exchange may not influence LCC-airport relationship development. It would appear that individuals of the organization may not be able to affect the LCC-airport relationship by their own aims and experiences. This research study would examine if individuals working within LCCs and airports have any influences on the development of LCC-airport relationships.

2.9.3. The interaction environment

The IMP Group (1982) argues that interaction between two organizations can only be understood if their interaction is analyzed in a wider context. This concerns the market structure, dynamism, internationalization, position in the manufacturing channel and the social system.

Market structure is the market concentration of both buyers and sellers which absolutely determines the number of alternatives available to each other. The

availability of alternatives can form pressure on the organizations when interacting (IMP Group, 1982). This element is further discussed in the next section.

Dynamism is defined as the level of instability of an environment that an organization has to face (Boyd, 1990). The IMP Group (1982) claims that opportunity costs of being dependent on only one relationship is very high within the dynamic environment. This is because the environment is changeable (Pfeffer & Salancik, 2003). The availability of current resources is not guaranteed tomorrow because the environment is changeable. The element of dynamism is adopted into the investigation as to how the interaction and relationship between LCCs and airports may change over time with changes to regulations, government attitudes, and within the interacting parties themselves.

Internationalization of the market can affect the organizational structure of buying and selling companies. They may need to set up overseas subsidiaries and affect their motivation on acquiring special knowledge, such as language or regulations on international trade, to deal with the international market (IMP Group, 1982). The reason why the IMP Group (1982) includes internationalization as one of the factors in the interacting environment is because of their comparisons to companies dealing with local and international markets. However, the scope of this study is confined to LCCs operating international routes. The nature of the business itself is already an international one. Therefore, this aspect within this research may not be as important as in the Interaction Model (IMP Group, 1982).

Position in the manufacturing channel refers to a buyer-seller relationship that is affected by their relationships with other companies in the supply chain stretching

from primary to final consumer (IMP Group, 1982). However, from the operational perspective, airports are the primary service provider while LCCs are the final consumer. It would appear that there is no such supply chain in LCC-airport relationships as exists within the manufacturing industry.

The Social system is a characteristic of the environment around the relationships. The IMP Group (1982) suggests that this aspect is more relevant to international buyer-seller relationships. Many items are incorporated into this aspect, such as general attitude and perception of a particular country and rules and regulations of international trade. A narrower perspective within a particular industry is also taken into account, such as the norm, practice, language and rules of that particular industry. The scope of the social system suggested by the IMP Group (1982) is very broad and does not provide a clear dimension to suggest what exact items should be studied. According to the literature review and discussions regarding aviation regulations, this study views regulations and government attitudes as pre-requisite constraints that limits LCCs and airports the freedom in establishing business relationships with each other. Therefore, the social system of this study is confined to regulations and government attitudes.

2.9.4. Atmosphere

The interaction model (IMP Group, 1982), suggests that the overall atmosphere of a relationship is depicted in terms of a power-dependence relationship, the state of conflict or co-operation between the organizations, overall closeness, or distance of a relationship and mutual expectations of each other (IMP Group, 1982). They are the

products of the relationship and are defined by the environmental, organizational and interaction process characteristics.

Power-dependence

The IMP Group (1982) measures the power-dependent relationship in terms of the proportion of both organizations' business with each other and their ability to have alternative interacting parties. One organization's power is derived from the dependence of its counterpart (Emerson, 1962). Pfeffer and Salancik (2003) state that one organization depends on another if the counterpart controls the resources that desperately required by the organization and if there is very little alternative source of the same resources elsewhere. All organizations carry their own resources but depend on the resources from the others at the same time. Then the process of developing a relationship between two organizations is the process of tying their resources together (Johnsen & Ford, 2001). The outcome of the relationship can be balanced or unbalanced and is determined by the dependence of both organizations on each other's resources (Buchanan, 1992). If both organizations value and depend on each other's resources equally, the relationship tends to be balanced; however, if one organization values and depends on the resources of their counterpart more than their counterpart does on them, the relationship tends to be imbalanced (Buchanan, 1992). Johnsen and Ford (2001, 2002) suggested that the power asymmetrical buyer-supplier relationships can affect future development of the capabilities of small and medium sized suppliers if the suppliers are the power disadvantaged parties. This is because the small and medium sized suppliers normally have limited capabilities which are drawn up exclusively to achieve the goals and interests of the single large buyer. Eventually, the capability of the small and medium sized suppliers adapt to

the requirements of the single large buyer. Therefore, small and medium sized suppliers, as power disadvantaged parties, tend to continue enhancing their capabilities according to the demand of the single large buyer.

Assuming that every organization possesses its own resources and capabilities before developing a relationship with an organization, their inherent resources and capabilities, as well as the resources and capabilities it wants from its counterpart, determine the power and dependence between them. Because of dependence, the organization is able to exert power and put influence on its counterpart (Emerson, 1962; Pfeffer & Salancik, 2003) through interaction. Then, the outcome of the relationship becomes balanced or imbalanced. Therefore, it comes to a logical inference that power and dependence is not the product of a relationship. Instead, it is the antecedents which affect the development of a relationship.

At one point, the IMP Group (1982) suggested that the inherent resources of an organization and its power determine its basic position in the interaction process. Hallen et al. (1991) also suggests that power imbalance leads to unilateral adaptation between organizations. It appears that power and dependence are the antecedent factors which affect the way organizations interact with each other. This study investigates as to whether power and dependence affect the development of LCC-airport relationships. If it does, the study examines how the relationship development process and the outcome of their relationships can be affected. A more detailed discussion regarding power and dependence is provided in a later section.

Conflict and co-operation

The state of conflict and co-operation was reflected by institutionalization (Halinen, 2003) and adaptation (IMP Group, 1982). The issue of benefit distribution creates a natural conflict between two organizations of a relationship (Woo & Ennew, 2004). In a mutual adaptation relationship, both organizations cooperate with each other in order to achieve value-creation for the relationship. This means that cooperation can avoid the relationship from becoming a zero-sum game (Hakansson & Snehota, 1995). Some large companies may purposely create conflict with their smaller counterparts in order to control or influence them, while the small organizations may attempt to take part in adaptation in order to achieve a co-operative relationship which tends to be stable and compatible (Hakansson & Snehota, 1995; Johnsen & Ford, 2001).

Closeness

The closeness of a relationship is studied in terms of exchange and contact history. The IMP Group (1982) suggests that adaptation is always a tool to develop a closer relationship. However, Brennan et al. (2003) does not find any significant correlation between adaptation and closeness of relationship. They suggest that further study is required on this subject. In the process of examining and analyzing the factors that affect LCC-airport relationship development process, this study inevitably discusses the closeness of LCC-airport relationships and to identify factors which affect their closeness.

The IMP Group (1982) also argues that a closer relationship can help to lessen the transaction costs by achieving more efficient distribution, negotiation, administration

and production process between buyers and sellers. It can also reduce uncertainty in sourcing resources or channels for output (IMP Group, 1982). However, the IMP Group (1982) also argues that there is an opportunity cost in developing a closer relationship with a particular counterpart, while the same amount of investment could be used to develop another relationship. Consequently, the risk of having a close relationship with only one particular counterpart can be high. An organization must balance the benefit of having a closer relationship and the opportunity costs of having it (IMP Group, 1982).

Mutual expectation

Mutual expectation is the outcome of institutionalization. It refers to the fact that both organizations should have a clear expectation in the roles and responsibilities of their counterparts and their ability to meet their counterparts' expectation. Both organizations tend to be familiar and institutionalized with each other after interacting for a period of time, from which they may create a mutual expectation of each other. However, the implications of mutual expectation are not provided by the IMP Group study (1982). The logical inference is that if an organization falls short of its counterpart's expectation, then the other aspects of their relationship, such as closeness, will be affected.

In summary, the Interaction Model explains the buyer-seller relationship with the suggested four groups of variables (IMP Group, 1982). It depicts the overall picture of buyer-seller relationships within the industrial market. The interaction process is divided into short term individual exchange episodes and a long term overall relationship process (IMP Group, 1982). The individual exchange episodes build up

the overall relationship and affect the atmosphere (Ford, 1980). The IMP Group (1982) also suggests that both the short and long term interaction is affected by the characteristics of the organizations, the individuals involved and the environment. Finally, the atmosphere of a relationship is defined by environmental, organizational and interaction process characteristics (IMP Group, 1982). The IMP Group (1982) suggests that the atmosphere of a relationship can be measured in terms of power-dependence, conflict and co-operation and closeness and mutual expectation. However, this model cannot explain what factors lead two parties to start a business relationship with each other. This research attempts to apply the concepts of resources and capabilities in order to examine why LCCs and airports are willing to develop relationships with each other. This research also adopts, in part, the Interaction Model (IMP Group, 1982) and examines the LCC-airport relationship development process in terms of their interaction process. In addition, this study investigates if power and dependence are the factors affecting the relationship development, instead of the product of the relationship. Moreover, the IMP Group (1982) claims that the atmosphere is not only the result of previous interaction, but also the starting point of future interaction. However, the IMP Group (1982) did not study further as to how the relationship atmosphere can affect future interaction. Although Johnsen and Ford (2001, 2002) suggest that an asymmetrical relationship may influence the future development of the capabilities of the power disadvantage party, this research study further investigates if and how the current relationship status of LCCs and airports affect the development of their capabilities, hence their future interaction is affected. The following section introduces other concepts related to interaction, found in currently available literature.

2.10. Other concepts related to interaction

As well as the interaction model, capability (Ford & Hakansson, 2005, Ford et al., 1986, Johnsen & Ford, 2001) and mutuality (Ford et al., 1986, Hakansson & Snehota, 1995, Johnsen & Ford, 2001, Woo & Ennew, 2004) are suggested in the mass of literature available, which may also affect interaction between organizations. Previous researchers emphasize the function of these elements during interaction. This study examines whether and how capability and mutuality lead LCCs and airports to start a business relationship with each other, as well as affect interaction between them.

2.10.1. Capability

All organizations may seek to initiate interaction (IMP Group, 1982; Ford et al., 1986). Organizations interact with each other as they seek to gain from each other, have a function for each other (Ford et al., 1986) or they need resources from each other (Pfeffer & Salancik, 2003). Capability refers to what organizations can do for their counterparts or what function the organizations can carry out for their counterparts (Ford et al., 1986). Johnsen and Ford (2001) state that capability is the ability of one organization to provide the counterpart with functional expertise, network connection, as well as financial, technological and physical resources. The concept of capability is a step forward from ‘important and critical resources’ suggested by Pfeffer and Salancik in 1978. Ford and Hakansson (2005) suggest that resources are only activated and developed into capabilities through interaction, whereby organizations can identify which capabilities are valuable to their counterparts. Then the organizations may invest in their resources to enhance a particular capability (Ford & Hakansson, 2005; Ford et al., 1986). This implies that

capabilities of an organization may change over the life of a relationship. Also, uniqueness of capability of an organization is one of the factors which prevent its counterpart from having an alternative (Ford et al., 1986).

If capability refers to what an organization can do for its counterpart (Ford et al., 1986), the logical inference is organizations would probably evaluate the capability of their counterparts in the pre-relationship stage. The organizations may also evaluate the resources of their counterparts in order to estimate whether the particular capability can be further enhanced. Therefore, if Organization A finds that the resources and capabilities possessed by Organization B are of value, it may then want to develop a business relationship with Organization B. It appears that resources and capabilities are the fundamental reasons as to why an organization wants to establish a business relationship. Therefore, this research incorporates the concept of resources (Pfeffer & Salancik, 2003) and capability (Ford et al., 1986) into the study framework.

Because of the characteristics of the industrial market, the interaction model (IMP Group, 1982) focuses on technology with very little consideration of other aspects of capabilities. If technology, as one of the aspects of capability can affect interaction, then it is supposed that every aspect of capability should have an influence. This study includes all capabilities of LCCs and airports which are valuable to each other, in order to generate a more comprehensive picture.

Firstly, this research studies what resources and capabilities of LCCs and airports are needed by each other. This starts from their mutual requirements which have been

discussed in previous sections. However, the suggested requirements have not been exhausted. This study investigates as to whether there are any other resources and capabilities of value to LCCs and airports by each other. Furthermore, this research enlarges on how resources and capabilities can affect their relationship development.

2.10.2. Mutuality

Mutuality rests on whether the two organizations share common goals or interests and the way they handle their divergent goals (Ford et al., 1986). It measure how much of its own individual goals or intentions a company is willing to give up in order to increase the positive outcome of others and, through this, its own ultimate well-being can be improved (Ford et al., 1986) or how much either party is prepared to sacrifice for the sake of the relationship (Johnsen & Ford, 2001). In another word, mutuality is a measure of potential of adaptation (Hakansson & Snehota, 1995; Johnsen & Ford, 2001). Organizations have different yet common goals and interests at the same time. Yet if both organizations place high priority on their common goals and interest, then mutuality may lead to adaptation in the long run. However, if the organizations focus on their self goals and interests only, then adaptation may not happen.

Mutuality affects the way in that organizations handle their relationships. This could be that an organization may have a very limited extent of mutuality with its counterpart by focusing on its self-interest and short term opportunism such as discount negotiation, when it deals with its counterpart (Ford et al., 1986). However, if both organizations emphasize mutual goals and interests, such as to simplify the production process, then they will show their interest in each others' well-being and

look for a longer term gain (Ford et al., 1986). With mutuality, adaptation tends to happen naturally (Ford et al., 1986; Hakansson & Snehota, 1995; Johnsen & Ford, 2001). Woo and Ennew (2004) also suggested that changes to the goals of either party can lead to the absence of mutuality, whereby conflict may be the result. This research brings mutuality into the study framework and investigates whether and how mutuality can affect interaction between LCCs and airports.

This study incorporates the concepts of interaction (IMP Group, 1982), resources (Pfeffer & Salancik, 2003), capability (Ford & Hakansson, 2005; Ford et al., 1986; Johnsen & Ford, 2001) and mutuality (Ford et al., 1986; Hakansson & Snehota, 1995; Johnsen & Ford, 2001; Woo & Ennew, 2004) into the conceptual framework in order to study whether and how resources, capabilities and mutuality may lead LCCs and airports into establishing a relationship with each other. It also examines as to whether and how they may influence relationship development between LCCs and airports. As this study incorporates resources and capabilities into the study framework, resource dependence theory (Pfeffer & Salancik, 2003) is also adopted for facilitating the research in understanding how resources and capabilities may affect relationship development between LCCs and airports.

2.11. *Power and Dependence*

Pfeffer, J. and Salancik, G. R. introduced resource dependence theory in 1978. This theory discusses how organizations manage to survive by seeking necessary resources from an uncertain environment (Begley, Tan & Schoch, 2005). Pfeffer and Salancik (2003) claims the key to an organizations' survival is their ability to acquire and maintain resources. Saxena (2000) suggests that the recognition of the resources

and expertise of feasible partners is the first step to form partnership between tourism business operators. Resources mentioned in this theory range from finance to physical and human resources. Resources directly held by an organization can determine what capability (Ford et al., 1986) it can develop.

Organizations are not self-contained (Buchanan, 1992; Pfeffer & Salancik, 2003). All organizations coexist in an environment and depend on external sources for necessary resources. If the supplies of these necessary resources from external sources are continually stable, there would be no problem. However, the environment is dynamic (IMP Group, 1982) and changeable. When organizations enter and exit (Pfeffer & Salancik, 2003) the market, the supply of those necessary resources may be disrupted. This problem leads to the issue as to how the organization can acquire and maintain a continuous and stable supply of resources. Pfeffer and Salancik (2003) argue that understanding the external environment of an organization is essential for it to acquire and maintain necessary resources, thus, the organization can survive. Pfeffer and Salancik (2003) also suggest that the effective organization is the one that can meet the demands from various external organizations which control the necessary resources for its survival or existence. If an organization depends on an external supply of necessary resources, it will inevitably employ the concept of dependence hence, the concept of power should also be involved. This is because previous researchers have normally discussed dependence together with power (Blau, 1964; Casciaro & Piskorski, 2005; Dahl, 1957; Emerson, 1962; Gaski, 1984). In fact, resource dependence theory is based on power-dependence relations theory introduced by Emerson in 1962. The following

section briefly discusses the power-dependence relations theory (Emerson, 1962) and is followed by a detailed discussion of resource dependence theory.

2.11.1. Power-dependence Relations Theory

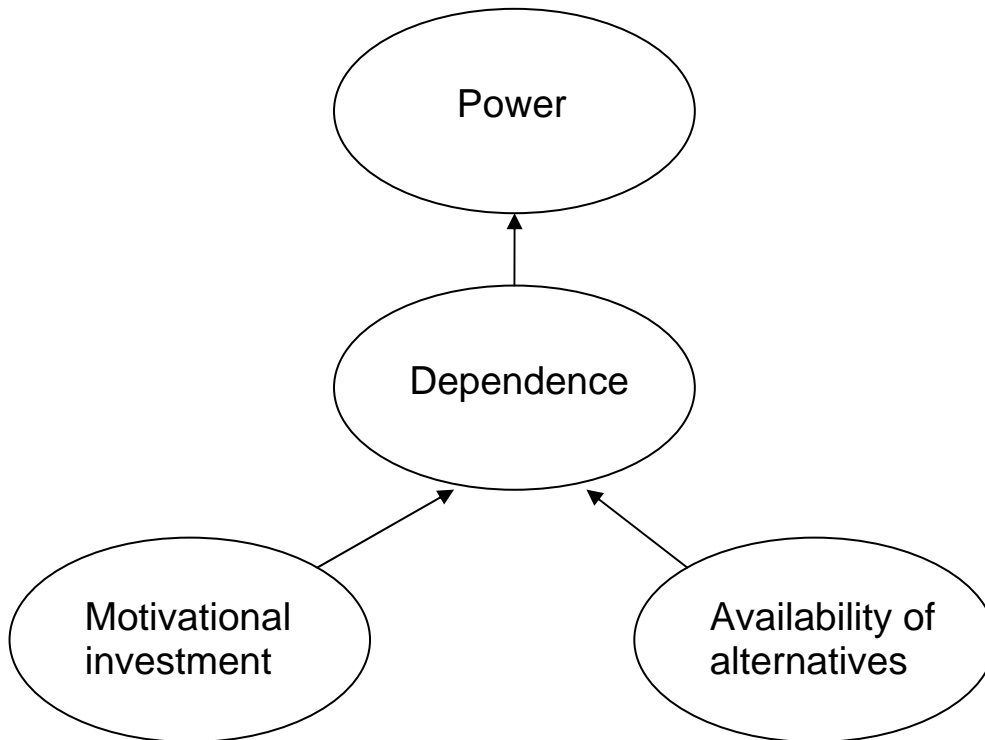


Figure 2.4: Power - Dependence Relations Theory (Emerson, 1962)

The power-dependence relations theory was firstly introduced by Emerson (1962) which developed the role of power in social exchange (Gelderman & Weele, 2004). The concept of power-dependence relations theory has long been adopted to study relationships by various researchers. Lawler and Yoon (1996) studied relational cohesion; Pfeffer and Salancik (2003) studied resource dependence theory; Gelderman and Weele (2004) studied dependence of buyer-supplier relationships while Casciaro and Piskorski (2005) extended the concept of interdependence from resource dependence theory (Pfeffer & Salancik, 2003) into power imbalance and mutual dependence. Besides, this theory has also been widely applied in the tourism

context, such as social exchange theory (Ap, 1992), community perceptions towards tourism development (Andriotis, 2005; Madrigal, 1993; Moyle, Croy & Weiler, 2010), cooperation between local community and international tour operator (Jensen, 2009), channel power theory in electronic distribution channels in the U.S. lodging industry (Kang & Brewer, 2009), partnership between protected area agencies and the tourism industry (Laing, Lee, Moore, Wegner & Weiler, 2009), relationships between tourism operators and wholesalers (March, 1997; 2003), dependence of small and medium sized tourism enterprises on the tourism board in Finland (Seppala-Esser, Airey & Szivas, 2009).

Emerson (1962) argues that “power is a property of social relations” and “resides implicitly in the other’s dependency” (p. 32). Actor B has power over actor A because actor B has control over the things that actor A values. In other words, actor B has power over actor A because actor A depends on something which is controlled by actor B. As shown in Figure 2.4, Emerson (1962) further explains that the dependence of actor A on actor B is ‘(1) directly proportional to A’s motivational investment in goals mediated by B, and (2) inversely proportional to the availability of those goals to A outside of the A-B relationship’ (p.32). The availability of those goals outside of the relationship refers to whether there are any alternative ways to achieve those goals outside of the relationship, such as a relationship with another actor. The higher desires of A on their goal, the more A will depend on B, inversely, the more alternatives are available, the lower A will depend on B.

In order to understand a dyadic relationship, it is necessary to consider the situation of both interacting parties simultaneously. Emerson (1962) further defines balanced

power-dependence relationships and imbalanced power-dependence relationships by examining the dependence situation of both interacting parties. Balanced power-dependence relationships refers to both parties being equally dependant on each other, while imbalanced power-dependence refers to the dependence of one party on another being more so than its counterpart. As B's power resides in A's dependency, his power will be explicit only if he exerts it and makes demands on A with it being counter to A's desire. Emerson (1962) defines the power of actor B over actor A as the amount of resistance from A which can be potentially overcome by B. Dahl (1957) defines power as A can request B to do something that B would not do otherwise. Blau (1964) defines power as the ability of A to impose his will on B. There is a common agreement of these three definitions that power is A's ability to influence B to do something which B will not do otherwise (Gaski, 1984). In balanced power-dependence relationships, it seems that neither A nor B can force their counterpart to do something which contradicts their own desire as both equally depend on each other. Therefore, neither can dominate the relationship. In comparison to the situation of balanced power-dependence relationships, power can be manifested easier in the situation of imbalanced power-dependence relationships. In the situation of imbalanced power-dependence relationships, the concept of power advantage (Emerson, 1962) or power imbalance (Casciaro & Piskorski, 2005) emerges inevitably which represents the difference of power between two interacting parties.

Besides the different of power between two interacting parties, Emerson (1962) discusses the total dependence of the two interacting parties. For instance, two relationships may be under the situation of balanced power-dependence, but they

may have a different level of total dependence (Emerson, 1962). The total dependence of both interacting parties determines the cohesion (Emerson, 1962; Lawler & Yoon, 1996) of the relationship. Lawler and Yoon (1996) suggest that equal dependence or high mutual dependence can promote cohesion of a relationship. The concept of power imbalance and mutual dependence are further illustrated by Casciaro and Piskorski (2005) which is discussed later. Based on power-dependence relations theory, Pfeffer and Salancik (2003) introduce resource dependence theory which is discussed in detail in the following section.

2.11.2. Resource Dependence Theory

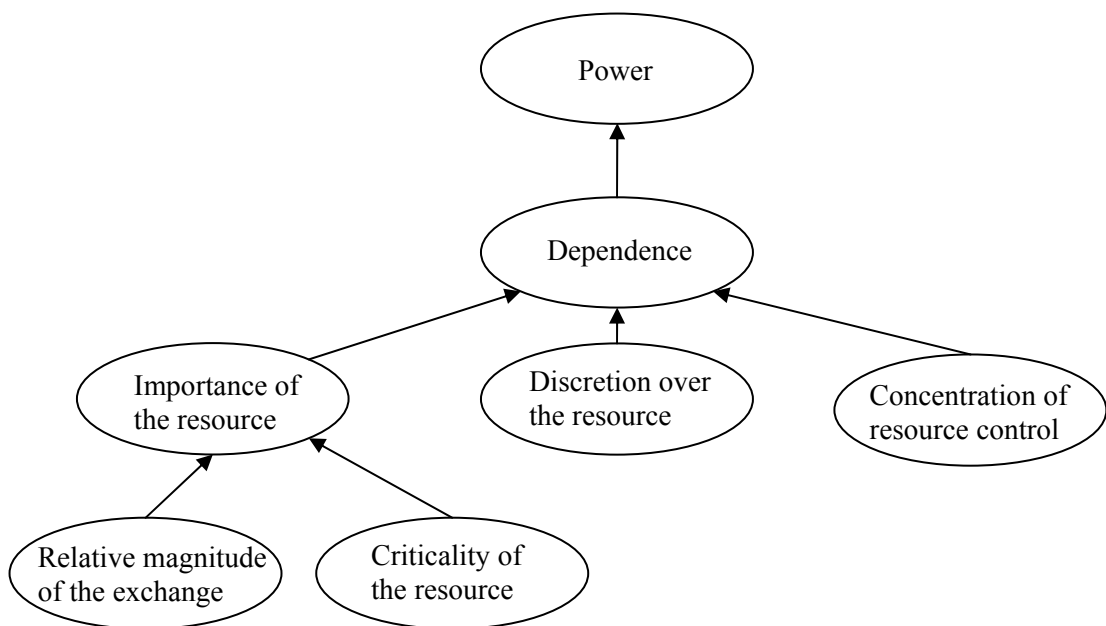


Figure 2.5: Resource Dependence Theory (Pfeffer & Salancik, 2003)

Since the introduction of resource dependence theory in 1978, it has been further studied during the past few decades. These cover the importance of avoiding dependence (Bourantas, 1989), the role of the corporate board in responding to environment (Boyd, 1990), the role of dependence on inter-firm adaptation (Hallen,

1991), the interaction of dependence and trust in long term industrial relationships (Izquierdo & Cillan, 2004), etc.

Resource dependence theory suggests that all organizations are not self-contained; instead, they all depend on external organizations for necessary resources to survive (Bourantas, 1989; Pfeffer & Salancik, 2003). For instance, LCCs depend on airport timeslots for operating their routes, while under-utilized airports depend on LCCs to bring aeronautical and non-aeronautical income. Further to Emerson's (1962) theory, Pfeffer and Salancik (2003) claims that Organization A has power over organization B because B depends on the resources controlled by A. The extent to which Organization B depends on A is affected by three factors as shown in Figure 2.5. These are importance of the resource, discretion over the resource and concentration of resource control.

Importance of the Resource

Importance of the resource is the extent to which the organization requires such resource for survival and existence (Pfeffer & Salancik, 2003). It is characterized by two dimensions, which are the relative magnitude of the exchange and the criticality of the resource. The relative magnitude of an exchange is the proportion of the exchange to the total input or the total output (Pfeffer & Salancik, 2003). The higher the proportion, the more important the exchange. Criticality of the resource refers to whether the organization can continue functioning in the absence of the resource or in the absence of the market for output (Pfeffer & Salancik, 2003). It is more difficult to measure criticality than relative magnitude. A resource may be critical to

an organization even if the proportion of the exchange to the total input or total output is low.

Discretion over Resources

Discretion over resources refers to whether an organization has an option to allocate, or to use and access the resources which are owned by another organization. An organization can depend on an external organization when that external organization possesses the resources which the focal organization desperately requires. Discretion over the resources may become the major source of power if concentration of resource control is taken into account.

Concentration of Resource Control

Concentration of resource control refers to the numbers of organizations available in the market to participate in the input or output transactions (Pfeffer & Salancik, 2003) Pfeffer and Salancik (2003) argue that even if the resource is important and the focal organization does not have discretion over the resource, dependence of the focal organization on the external organization will only be manifested if there is no or only a few alternative sources of the same resource. Concentration of resource control can be measured by concentration ratio, such as 4-firm concentration ratio and Herfindahl-Hirschman Index (HHI), which is typically used by economists. If the market of a resource is a monopoly, then the supplier enjoys an extremely high concentration of resource control; conversely, in a perfect competition market, each supplier usually has relatively little concentration of resource control. As Pfeffer and Salancik (2003) suggest, the power of any single supplier and customers is low when many sources of supply or potential customers are available in the market.

2.11.2.1. Dependence

As discussed above, dependence is a function of the importance of resource, discretion over the resource and concentration of resource control. The focal organization will not depend on any particular organization if any one of the above criteria does not exist. No matter how important the resource is, the focal organization will not depend on any particular external organization if there are many alternative sources of that resource. Inversely, no matter how concentrated resource control is, only if the resource is important to the focal organization, it will not depend on any particular external organization which has discretion over the resource. However, Hallen et al. (1991) suggest that customer importance is the most reliable indicator of supplier dependence while buyer concentration is less significant.

2.11.2.2. Interdependence

From the above discussion, it appears that dependence is unilateral from the focal organization to the external organization. However, Pfeffer and Salancik (2003) claim that organizations are interdependent. It is always true that when one organization needs resources from an external organization as its input, the external organization also depends on the focal organization to absorb its output. For instance, when LCCs need airport facilities to operate flight services, it is always true that the under-utilized airports need LCCs to buy their services in order to earn enough income to continue their airport business.

Pfeffer and Salancik (2003) suggest that interdependence need not be symmetric, it can be asymmetric. In an asymmetric interdependence relationship, power is

concentrated on the power-advantage side because the counter party is not able to muster equal power to countervail (Pfeffer & Salancik, 2003). This can happen if Organization A owns and controls a resource which is important to Organization B's survival. Organization B does not have any other alternative source to obtain this resource. Meanwhile, Organization A is selling the resource to several organizations at the same time. Obviously, an asymmetric interdependence relationship exists in the relationship between Organization A and B because the exchange is not equally important to both organizations (Pfeffer & Salancik, 2003). This situation is similar to the balanced power-dependence relationship and imbalanced power-dependence relationship suggested by Emerson (1962).

Pfeffer and Salancik (2003) combined the concept of power imbalance and mutual dependence (Emerson, 1962) into the concept of interdependence. However, according to Emerson (1962), power imbalance refers to one party having a power advantage over their counterpart; hence the power advantage party can influence its counterpart to do something which would not be done otherwise. Mutual dependence refers to the total dependence of two parties which represents the cohesion of their relationship. It appears that power imbalance and mutual dependence are two opposite forces. Therefore, based on Emerson's (1962) theory, Casciaro and Piskorski (2005) divide the concept of interdependence into power imbalance and mutual dependence.

2.11.3. Power Imbalance and Mutual Dependence

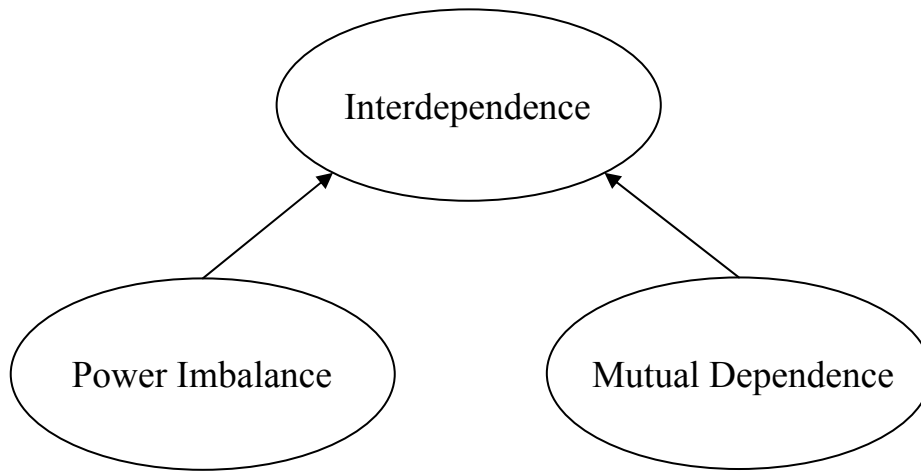


Figure 2.6: Configuration of Interdependence (Casciaro & Piskorski, 2005)

In the study of interdependence between organizations, it is necessary to consider the differences of the dependence between them and their reciprocal dependence simultaneously. Therefore, Casciaro and Piskorski (2005) re-introduce Emerson's theory (1962), power imbalance and mutual dependence into resource dependence theory. As previously discussed, power imbalance between two organizations is the difference of dependence between them, while mutual dependence is defined as the sum of dependence of the two focal organizations, (Casciaro & Piskorski, 2005; Emerson, 1962).

Lawler and Yoon (1996) suggest that balanced power together with greater mutual dependence can promote relational cohesion. Casciaro and Piskorski (2005) study the difference between power imbalance and mutual dependence further and find that power imbalance and mutual dependence have opposite forces in relation to company mergers and acquisitions. Power imbalance is an impediment to company mergers and acquisitions while mutual dependence is a key driver in their formation.

However, neither study illustrated how power imbalance together with mutual dependence affects the interaction between organizations.

Table 2.2: Configurations of power imbalance and mutual dependence (Casciaro & Piskorski, 2005)

		A's dependence on B (Pba or Dab)		
		Low (1)	Medium (2)	High (3)
B's dependence on A (Pab or Dba)	High (3)	Configuration 7 Power imbalance ^a : 2 Mutual dependence ^b : 4	Configuration 8 Power imbalance: 1 Mutual dependence: 5	Configuration 9 Power imbalance: 0 Mutual dependence: 6
	Medium (2)	Configuration 4 Power imbalance: 1 Mutual dependence: 3	Configuration 5 Power imbalance: 0 Mutual dependence: 4	Configuration 6 Power imbalance: 1 Mutual dependence: 5
	Low (1)	Configuration 1 Power imbalance: 0 Mutual dependence: 2	Configuration 2 Power imbalance: 1 Mutual dependence: 3	Configuration 3 Power imbalance: 2 Mutual dependence: 4

^a Power imbalance = $|Pab - Pba|$ or $|Dba - Dab|$

^b Mutual dependence = $Pab + Pba$ or $Dba + Dab$

Casciaro and Piskorski (2005) explain the necessity of dividing interdependence into power imbalance and mutual dependence by constructing a table as shown in Table 2.2. Table 2.2 illustrates the interdependence between organization A and B with nine different combinations of power imbalance and mutual dependence. Each configuration in Table 2.2 is characterized by a different level of power imbalance and mutual dependence. At any given level of power imbalance, mutual dependence varies from configuration to configuration, so as the power imbalance.

The shaded boxes on the diagonal illustrate the balanced power relationship between organization A and B. Configurations in the un-shaded boxes are imbalanced power relationships. The configurations above the diagonal represent the situation of A as being on the power advantage side while the configurations below the diagonal depict those of the power imbalance that favoring B.

2.11.3.1. Power Imbalance

Both configuration 5 and 7 are under the same level of mutual dependence but at different levels of power imbalance. Configuration 7 is an imbalanced power relationship while configuration 5 is a balanced power situation. Under configuration 7, D_{ba} is higher than D_{ab} . This can be because B has fewer critical resources needed by A, A has more alternative sources of the critical resources, A has more critical resources needed by B or B has fewer alternative sources of the critical resources. No matter what the reason, B is facing a greater uncertainty than A. B would suffer more than A if the exchange relationship between them failed. In this sense, B will value the exchange relationship more than A (Casciaro & Piskorski, 2005).

Both the study of Emerson (1962) and Pfeffer and Salancik (2003) suggest that power is accumulated by the less dependent organization in an asymmetric interdependence exchange relationship. The more powerful organization may attempt to influence the behavior of the more dependent organization. The more dependent organization is vulnerable as the power advantage organization can make demands on it and reduce its autonomy. The more dependent organization will eventually lose a certain degree of freedom on strategies, leading to direct transfer of benefits and profits to the more powerful organization (Bourantas, 1989). However, this illustration has only explained power imbalance between organizations. In order to have a comprehensive picture, it is necessary to take mutual dependence into account.

2.11.3.2. Mutual Dependence

When power between A and B is equal, mutual dependence increases gradually from configuration 1 to 5 and to 9. In Configuration 1, mutual dependence is the lowest amongst the three scenarios, in which both A and B have a very low level of dependence on each other. This indicates that both A and B are able to obtain the critical resources from the other organizations outside their dyadic relationship. This means that both A and B will not be affected significantly if they lose this exchange relationship. In this situation, there is little room for negotiation in the exchange relationship between A and B and it can be broken quite easily as there are plenty of alternative sources for the critical resources. As the mutual dependence increases to Configuration 5 and 9, the alternative sources of critical resources become fewer and fewer. The cost of losing the exchange relationship to both of them becomes larger than the situation of Configuration 1. As a result, both A and B do not want the exchange relationship to fail. (Casciaro & Piskorski, 2005)

Pfeffer and Salancik (2003) discuss power imbalanced relationships between organizations in detail; however, they do not take mutual dependence into account. Lawler and Yoon (1995) and Casciaro and Piskorski (2005) discuss the outcome of relationships affected by power imbalance and mutual dependence, but how the actions and reactions during their interaction is affected by power imbalance and mutual dependence have not yet been studied. Hallen et al. (1991) suggest that imbalanced dependence between the parties leads to unilateral adaptation, however, mutual dependence has not been considered. Scholars, such as Lawler and Yoon (1995) and Casciaro and Piskorski (2005) suggest that power imbalance and mutual dependence are two opposite forces of a relationship. This research incorporates the

concept of power imbalance and mutual dependence together with the concepts of mutuality into the study framework. This is in order to explore the influences of these three forces on interaction between LCCs and airports, as well as exploring whether there are other factors which affect their interaction and relationship development.

2.12. The Conceptual Framework

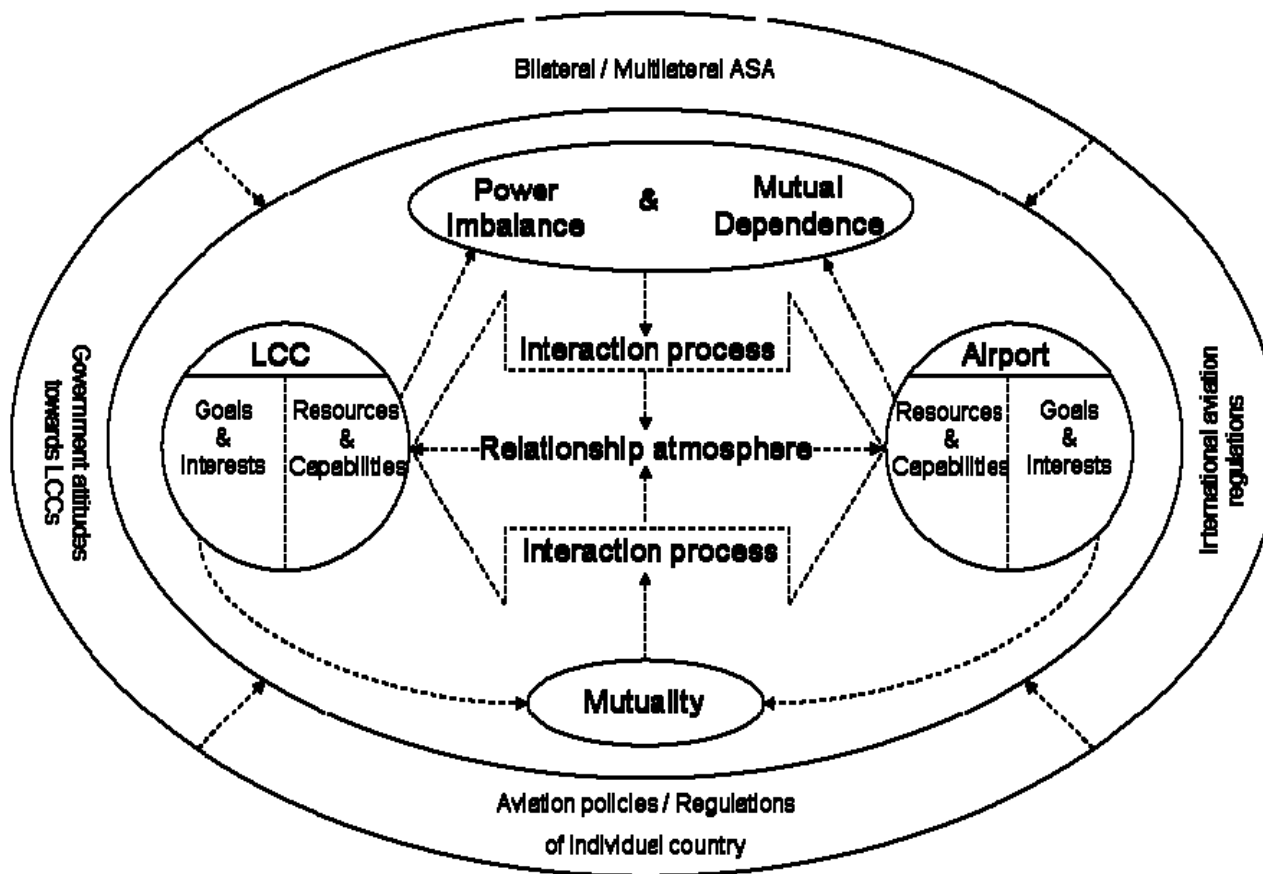


Figure 2.7: The Conceptual Framework

This research endeavors to explore the development process of business relationships between LCCs and airports. The relationships between organizations or buyers and sellers was suggested as being developed by interaction episodes (Brennan et al., 2003; Dwyer et al., 1987; Ford, 1980; Ford et al., 1986; Hakansson & Snehota, 1995; Johnsen & Ford, 2001) which indicated that relationship development can be understood through examining interaction episodes. This research follows the views of previous researchers; hence, development of the business relationships between LCCs and airports is investigated through their interaction processes. This is done by adopting an interview guide enabling the author to capture snapshots of episodes outlining the interaction between LCCs and airports.

LCCs and airports cannot interact freely. The whole aviation industry, as well as LCCs and airports, are framed by three levels of control. These are international aviation regulations, BASA or MASA and aviation policies and regulations of the individual country. LCCs cannot establish themselves in any airport or fly to any airport according to their own desire. This research suggests that the three levels of control together with national government attitude towards the development of LCCs form pre-requisite constraints limiting the emergence of LCCs. These factors construct the outer layer of the conceptual framework as shown in Figure 2.7. They are viewed as pre-requisite constraints limiting the establishment of business relationships between LCCs and airports. Moreover, this research examines whether these factors continuously affect the development of the business relationships between LCCs and airports, and how their relationships are affected.

After passing the outer ring, the inner part of the conceptual framework examines why LCCs and airports develop business relationships and how their relationships are developed. For a relationship to be worthwhile, both interacting parties must be able to gain from each other and be able to form something meaningful together (Ford et al., 1986) which cannot be formed by either party individually (Hakansson & Snehota, 1995). This point of view inevitably leads to two fundamental questions as to what an organization can offer its counterparts and what it wants from its counterpart. These two fundamental questions relate to what resources and capabilities the LCCs and airports can offer each other and what goals and interests they want to achieve with the resources and capabilities so obtained. Therefore, the concept of resources, capability, goals and interest are incorporated into the conceptual framework.

When the LCCs and airports depend on each others' resources and capabilities then the concept of power and dependence emerges. Previous researchers, such as Casciaro and Piskorski (2005) and Lawler and Yoon (1996) suggest there are two opposite forces in dependence, which are power imbalance and mutual dependence. This research study incorporates the concept of power imbalance and mutual dependence into the study framework in order to examine whether and how these two different forces affect the development of LCC-airport relationships.

The concept of mutuality emerges into the conceptual framework when goals and interests of the LCCs and airports are considered to be factors affecting their relationship development. Previous studies suggest that mutuality has an influence on the way that organizations handle their relationships. This study incorporates

mutuality into the interaction model in order to examine whether and how mutuality influences the LCC-airport relationship development. Through the research process, the concept of power imbalance, mutual dependence and mutuality can be confirmed or unconfirmed. In addition, this research also analyzes how mutuality, together with power imbalance and mutual dependence affect the development process of LCC-airport relationships. Other factors affecting relationship development between LCCs and airports are also explored.

The IMP Group (1982) suggests relationship atmosphere is not only the product of the interaction process, but also the starting point for future interaction. However, how future interaction would be affected has not been specified. Previous researchers, such as Johnsen and Ford (2001, 2002), suggested that the asymmetrical relationship had implications on future capability development of a power disadvantaged organization. It appears that the relationship atmosphere can enhance or limit both resources and capabilities of LCCs and airports. Eventually, newly enhanced or limited resources and capabilities may affect the next round of the interaction process, as well as the relationship atmosphere in the future. It appears that the whole process is a loop in which the variables change in the lifetime of the relationships. This research study attempts to investigate if and how the capabilities development and future interaction between LCCs and airports are affected by the current status of their relationships.

2.13. Summary of literature review

The aviation industry is a highly regulated one, therefore aviation regulations are discussed at the beginning of the literature review chapter. Literature outlining government preferences regarding protectionism and liberalization as well as their attitude towards development of LCCs follows. These regulations and government influences carry an impact on the aviation industry and may even limit the freedom of LCCs and airports to establish business relationships with each other. Previous research regarding the requirements of both LCCs and airports is discussed to examine the criteria they may have for locating potential business partners, and also the relationships between LCCs and airports. However, it is found that previous research mainly studies the influence of LCCs on the aeronautical and non-aeronautical income of airports. As there is no existing theory to explain the development process of LCC-airport relationships, this study extends the literature review to that of business-to-business relationships. The interaction model (IMP, 1982) is introduced to explain the buyer-seller relationship within the industrial market. Previous research of business-to-business relationships suggests that a relationship is only worthwhile if both interacting parties can gain from each other (Ford et al., 1986). Therefore, the concept of resources and capabilities as well as goals and objectives are incorporated into this study and act as the starting point to explain why LCCs and airports want to establish a joint business relationship. According to the power-dependence relations theory (Emerson, 1962) and resources dependence theory (Hakansson & Snehota, 1995), the concepts of power imbalance and mutual dependence (Casciaro & Piskorski, 2005; Lawler & Yoon, 1996) are suggested.

Together with mutuality, power-imbalance and mutual dependence are suggested by available literature, to have an influence on the interaction between business partners. Mutuality, power imbalance and mutual dependence should exist within a business relationship simultaneously. However, there is no research material available at this time that has studied all influences of these three factors. This study intends to analyze the total effects of these influences on LCC-airport relationships. The IMP Group (1982) suggests that the relationship atmosphere created by two interacting parties can affect future interaction. This research study sets out to investigate if and how the relationship status of LCCs and airports affect their future interaction. Based on the findings of current literature reviews, a conceptual framework is suggested in Figure 2.7 (p.107). The conceptual framework helps to guide the research through the aspects of LCC-airport relationship development.

CHAPTER 3. METHODOLOGY

This chapter explains the research method used when conducting this study. A detailed discussion of research design is explained which includes research approach, selection between single and multiple case approach, the process of case selection, sources of data and data analysis techniques. Finally, it concludes with a discussion on the limitation of theory building from the case study approach and addresses the limitations of this study.

3.1. Design of research

In order to conduct conscientious and careful research, the design is considered as the most important issue to ensure trustworthiness (Lincoln & Guba, 1985), (i.e. credibility, transferability, dependability and confirmability). This section discusses the research approach, the justification in the use of a single or multiple case study approach, unit of analysis, the process of case selection, sources of data and techniques of data analysis. Through this discussion, steps to ensure trustworthiness are addressed.

3.1.1. Research approach

3.1.1.1. Quantitative approach Versus qualitative approach

This research is an exploratory study with some explanatory elements to examine the development process of the business relationship between LCCs and airports. Within available literature, a number of previous research studies regarding LCCs and airports (e.g. Barrett, 2004; Francis et al., 2003; Francis et al., 2004; Gillen & Lall, 2004; Warnock-Smith & Potter, 2005) have been found. However, previous research neither provides a theory to examine the development processes of LCC-

airport relationships, nor provides answers to understand why and how LCCs and airports develop mutual business relationships. This research suggests that a more in-depth understanding of their relationships is required. The quantitative approach has long been viewed as a good approach to test theory. However, this research is the first study to attempt the development of a theoretical framework to examine the relationship development process between LCCs and airports. In this sense, the quantitative approach may not be an appropriate research method.

The nature of information to be collected is another consideration. This research requires the interaction process between LCCs and airports to be studied in order to understand their relationship. The interaction process involves actions and reactions taken over time which can only be described in detail through in-depth interviews. However, a quantitative questionnaire survey, in the main, collects data on frequencies and ratings which hardly provide enough insight into how and why these actions and reactions are taken. This is because the answers normally involve a lot of verbal explanations. Therefore, the purpose of this study cannot be achieved through adoption of a quantitative approach.

As discussed in the conceptual framework section, this research studies pre-requisite constraints on the interaction between LCCs and airports, their resources and capabilities, goals and interests, their interaction process, relationships, whether power imbalance, and whether mutual dependence and mutuality emerge into the interaction process. The range of issues to be covered by this research is extensive. Substantial information is expected to be gleaned from each interviewee. Therefore,

this study favors the qualitative method rather than the quantitative method (Patton, 2002).

3.1.1.2. Reasons for choosing the case study approach

Yin (1994) suggests that the research question decides the research strategies. Research questions can be in the form of ‘who, what, how many, how much, where, how and why’, while the case study method is the preferred research strategy for answering ‘how or why’ questions. This is because the ‘how and why’ questions leads into more explanatory answers when required in tracing an issue or a series of issues over time. One of the advantages of the case study research method is its ability to deal with longitudinal issues (Yin, 1994). While most research questions of this study are ‘how and why’ and the interaction process is considered as longitudinal issues, the case study method is considered to be more appropriate for this research (Yin, 1994). Although case studies cannot show the significance of correlation between variables, or constructs as quantitative research methods do, it is the responsibility of the researcher to suggest why these variables or constructs are correlated to each other. In this research, the case study research method can be used to illustrate how and why the relationship between variables or constructs may exist.

This research is a first attempt to systematically explore the development process of the relationship between LCCs and airports. Eisenhardt (1989) suggested that the case study is an appropriate approach in carrying out the early stages of research on a topic, as it does not depend on former established theories.

The case study approach is also preferred in investigating contemporary issues because it can deal with primary evidence such as interviews and observations, and historical evidence such as documents, artifacts and literature (Yin, 1994). The unique strength of the case study is that it covers a wide variety of evidence providing the ability to reconcile between different types of evidence and comparisons across various cases. This unique advantage allows researchers to compare and contrast the evidence which can contribute in creating new theoretical vision (Eisenhardt, 1989).

The theory developed by use of the case study approach is likely to be empirically valid because the process of theory building is tied to a wide variety of evidence. The outcome is more likely to be consistent with empirical evidence which can produce a theory that mirrors reality (Eisenhardt, 1989). As this research studies a contemporary practical issue, it requires a research method that can reflect reality. Yin (1994) claims that case study research methods have a distinct advantage when most of the research questions are how or why questions about a contemporary set of events that the researcher has little or no control over it. This suggests that the case study is an appropriate method for this research.

Last but not least, the purpose of this study is to examine the development process of LCC-airport relationships. Previous research suggests that buyer-seller relationships are built by interaction episodes (Brennan et al., 2003; Dwyer et al., 1987; Ford, 1980; Ford et al., 1986; Hakansson & Snehota, 1995; Johnsen & Ford, 2001) which means that the relationship development process can be understood through examining interaction episodes. The qualitative approach is suggested as being more

of an appropriate study regarding episodes of the development process, while the multiple case study approach allows this research to compare and contrast interaction episodes of several LCC-airport relationships at the same time. After discussing the logic of choosing a research method, whether single case or multiple case studies should be adopted is explained in the following sections.

3.1.2. Single case Versus Multiple case study

Yin (1994) suggests that the single case study design is appropriate when a critical case of challenging a well established theory is required; it represents an extreme or unique phenomenon, or it is a revelatory case which has been inaccessible to scientific study in the past. The purpose of this research is not to challenge a well established theory. Instead, this is an exploratory study with the purpose of establishing a theoretical framework to explain the development process of the relationships between LCCs and airports. Therefore, the single case study is considered to be less appropriate for this research. Hence, the multiple case studies approach, providing an opportunity to compare similarities and differences within a range of contexts (Westgren & Zering, 1999) was adopted. This is more appropriate because this research suggests that the interacting process of LCCs and airports varies under different circumstances of dependence status and mutuality.

3.1.3. Unit of analysis

The unit of analysis is the fundamental question of case study research which questions what the 'case' is (Yin, 1994). This question relates to knowledge required by the researchers to enable them an understanding and to provide a contribution to the bank of research available. The purpose of this study is to explore the

development process of the relationships between LCCs and airports. The main unit of analysis is defined as the development process of a dyadic relationship between an LCC and airport. The process of developing a relationship between one LCC and one airport represents one case. As the development of a relationship is a temporal issue, a timeframe is required to define the beginning and end of the case. The beginning of the case is when the LCC or airport begins to evaluate each other as a potential business counterpart. The end of the case is when the interviews are conducted. This allows interviewees to trace back their actions and reactions taken over time while they cannot accurately predict what they and their counterparts will do in the future. Therefore, historical case information is only available up to the time of being interviewed.

3.1.4. Selection of cases

The problem statement and scope of study have already explained that the intention of this research is to study international relationships between privately owned LCCs and government owned airports in Southeast Asia. Therefore, the first step of case selection is to list all cases according to the problem statement and scope of study. The criteria for selecting cases are summarized as follows:

1. LCCs registered in Southeast Asia countries having an international operation.
2. LCCs must be privately owned.
3. Airport must be government owned and controlled.
4. Cases must be that of an international operation within Southeast Asia.

Fifty two cases (see Appendix I for the full list) were eligible for consideration during the first round of case selection. These formed the pool of cases required, from which a selection would represent those for analysis. A case should be selected purposively rather than randomly which is the most common approach for case study research (Eisenhardt, 1989; Yin, 1994). As discussed in the literature review section, power, dependence and mutuality may affect the interaction and relationships of LCCs and airports. This study has selected cases according to their power-dependence level with the aid of configurations of power imbalance and mutual dependence (Casciaro & Piskorski, 2005) as shown in Table 3.1. The purpose of this is to see if there are variations of interaction between LCCs and airports under different circumstances of power-dependence, hence different relationships are formed. If variations are found in these cases, the research will continue to investigate how power-dependence affects their interaction and relationships. If no variation is found, this research will investigate what other factors and how these factors affect their interaction and relationships. Mutuality was not incorporated into the selection stage of cases because it involves considering the goals and interests of LCCs and airports. This information could not be obtained without an in-depth interview with the relevant LCCs and airports. However, it was difficult to interview all 52 cases in order to compare goals and interests between LCCs and corresponding airports. Therefore, the cases were selected in terms of their power-dependence, with mutuality being compared between the selected cases to examine if it had any influence on LCC-airport relationships.

Table 3.1: Configurations of power imbalance and mutual dependence (Casciaro & Piskorski, 2005)

LCC dependence on Airport	High (3)	Configuration: 1 Power imbalance: 2 Mutual dependence: 4 Airport has power over LCC while their mutual dependence is mild	Configuration: 4 Power imbalance: 1 Mutual dependence: 5	Configuration: 7 Power imbalance: 0 Mutual dependence: 6 LCC and airport has equal power and their mutual dependence is high
	Medium (2)	Configuration: 2 Power imbalance: 1 Mutual dependence: 3	Configuration: 5 Power imbalance: 0 Mutual dependence: 4	Configuration: 8 Power imbalance: 1 Mutual dependence: 5
	Low (1)	Configuration: 3 Power imbalance: 0 Mutual dependence: 2 LCC and airport has equal power and their mutual dependence is low	Configuration: 6 Power imbalance: 1 Mutual dependence: 3	Configuration: 9 Power imbalance: 2 Mutual dependence: 4 LCC has power over airport while their mutual dependence is mild
	Low (1)		Medium (2)	High (3)
	Airport dependence on LCCs			

Table 3.1 illustrates nine configurations of varying power and dependence. Configuration 1, 3, 7 and 9 in Table 3.1 are highlighted which are the four extreme scenarios. Configuration 1 represents the airport having power advantage over the LCC while their mutual dependence is mild. Configuration 3 represents the LCC and airport with balanced power but their mutual dependence is low. Configuration 7 also represents the LCC with the airport having balanced power and mutual dependence being strong. Configuration 9 represents the LCC with power advantage over the airport while their mutual dependence is mild. Real cases falling into or close to configurations 1, 3, 7 and 9 were selected. The reason for selecting extreme cases was their ability to manifest the influence of power and dependence by explicitly showing contrasts in their interaction.

If little or no contrast was found in these extreme power imbalance-mutual dependence configurations, or if data collected from interviews showed that contrasts

of interaction were not caused by power imbalance and mutual dependence, this research would investigate what other unexpected factors exist. In order to locate four extreme cases, the 52 cases would need to be evaluated for power-dependence status.

3.1.4.1. Evaluating Dependence of LCCs and Airports upon each other

The dependence of LCCs and airports upon each other is determined by their importance to each other, discretion over the needed resource and concentration of resource controlled (Pfeffer & Salancik, 2003). LCCs and airports definitely have no discretion over the resources of each other. Concentration of resources controlled by LCCs and airports indicates availability of alternatives able to provide similar resources. However, the timeframe of each case starts from the time they began to evaluate each other as a potential business counterpart. Information as to whether they had alternatives at that time or whether they had considered alternatives could only be obtained through in-depth interviews. In addition, Hallen et al. (1991) suggest that customer importance is the most reliable indicator of supplier dependence while buyer concentration is less significant. Therefore, at the stage of case selection, this research considered the dependence on each other in terms of their importance to each other.

Dependence of airports on LCCs

An industry expert was interviewed in a pilot interview and suggested that the importance of the LCC to an airport can be measured by the proportion of passenger throughput brought by the LCC to the total passenger throughput of the airport. The industry expert further suggested that if the LCC can bring 8% or more of total passenger throughput to an airport, it makes the LCC an important contributor to that

airport. Unfortunately, data for passenger throughput by LCCs was not available when the cases were selected. Therefore, the proportion of LCC departures to the total flight departures from the airport was used as a proxy measure. The higher the proportion, the higher the potential is in that the LCC can reach 8% or more of the total passenger throughput of the airport. The formula of calculating the proportion is shown as follow.

$$\frac{\sum(L_nR_1 + L_nR_2 + L_nR_3 + \dots \dots + L_nR_n)}{\sum(A_1 + A_2 + A_3 \dots \dots + A_n)}$$

Formula 3.1: The proportion of the LCC's departures to the total departures of the airport

L_nR_1 = The LCC's number of weekly departures on Route 1 from the airport

L_nR_2 = The LCC's number of weekly departures on Route 2 from the airport

L_nR_3 = The LCC's number of weekly departures on Route 3 from the airport

L_nR_n = The LCC's number of weekly departures on Route N from the airport

A_1 = Airlines 1's total weekly departures from the airport

A_2 = Airlines 2's total weekly departures from the airport

A_3 = Airlines 3's total weekly departures from the airport

A_n = Airlines N's total weekly departures from the airport

For example, AK (AirAsia Malaysia) operates seven weekly flights from Johor Bahru (JHB), seven weekly flights from Kota Kinabalu (BKI), 28 weekly flights from the Low Cost Terminal of Kuala Lumpur (KLCCT) and three weekly flights from Kuching (KCH) to Macau (MFM), which means AK operate 45 flights in total to MFM per week. MFM handles 462 flights per week, therefore 9.7% (45/462) of MFM flights are operated by AK. This calculation reflects the total relationship between AK and MFM. The reason for taking their total relationship into account is

because airport management is more likely to evaluate AK's business as a whole, rather than on a route by route basis.

The congestion level of an airport (IATA, 2006a) also needs to be taken into account. The congestion level of an airport indicates how well their business is doing. To a certain extent, this could reflect their dependence on the LCC. This research assumed that level 3 airports were the least eager while level 1 were the most eager to attract or to keep the LCC business. Therefore, level 3 airports were assumed to have the least dependence, while level 1 assumed the most dependence on LCCs. In the case selection process using configurations 1 and 3, level 3 airports had priority because they were assumed to have the least dependence on LCCs. Level 1 airports were the priority in configurations 7 and 9 because they were assumed to have the most dependence on LCCs. This means that if one level 1 and one level 3 airports fall into configurations 1 or 3, the level 3 airport should be chosen. In contrast, if one level 1 and one level 3 airports fall into configuration 7 or 9, the level 1 airport should be chosen.

Dependence of LCCs on airports

During the pilot interview, the industry expert suggests that a single daily flight operating to a destination airport is considered as a fill-in flight in order to raise aircraft utilization, therefore this is considered as of low importance to the airline. A double daily flight to a destination deploys 50% of an aircraft unit, therefore it is considered as of medium importance to the LCC. Once a route commits a whole aircraft unit, meaning four flights per day, then this route is considered as of high importance to the LCC. The aircraft is the most valuable asset of the LCCs, so if the

LCCs are willing to deploy a whole aircraft unit to operate a route, it means that this destination is of high importance to the LCC's network.

According to the industry expert, the importance of a destination airport to LCCs should be viewed at route level. AK can again be used as an example: AK operates seven weekly flights from Johor Bahru (JHB), seven weekly flights from Kota Kinabula (BKI), 28 weekly flights from Kuala Lumpur (KLCCT) and three weekly flights from Kuching (KCH) to Macau (MFM). AK only operates fill-in flights from JHB, BKI and KCH to MFM. However, AK commits a whole aircraft unit to the route between KLCCT and MFM which makes this destination airport of high importance to AK. Once a route makes the destination airport reach a higher level of importance to the LCC, other routes operating to the same destination from different base airports with lower importance are not considered. This is because the higher level of importance is already shown by the commitment of the LCC to that destination airport.

3.1.4.2. Abbreviations of LCCs and airports

The following sections explain the case dependence status and why these cases have been selected. Many abbreviations are used within the descriptions and explanations, therefore a table has been prepared for ease of use. For easy referencing, Table 3.2 and Table 3.3 list the abbreviations of LCCs and airports, respectively, which appear in the following section. LCCs and airports are arranged according to the alphabetical order of their abbreviations.

Table 3.2: Abbreviation of LCCs

Abbreviations	LCCs
5J	Cebu Pacific
AK	AirAsia Malaysia
FD	Thai AirAsia
VF	Valuair

Table 3.3: Abbreviations of airports

Abbreviations	Airports
BKI	Kota-Kinabalu International Airport
BKK	Bangkok Suvarnabhumi International Airport
CEB	Mactan-Cebu International Airport
CGK	Jakarta Soekarno-Hatta International Airport
CRK	Clark Diosdado Macapagal International Airport
DVO	Davao Francisco Bangoy International Airport
HAN	Hanoi Noibai International Airport
HKG	Hong Kong International Airport
JHB	Johor Bahru Sultan Ismail International airport
KCH	Kuching International Airport
KLCCT	Kuala Lumpur International Airport Low Cost Terminal
KUL	Kuala Lumpur International Airport
MFM	Macau International Airport
MNL	Manila-Ninoy Aquino International Airport
SIN	Singapore Changi Airport

3.1.4.3. Dependence status of the cases

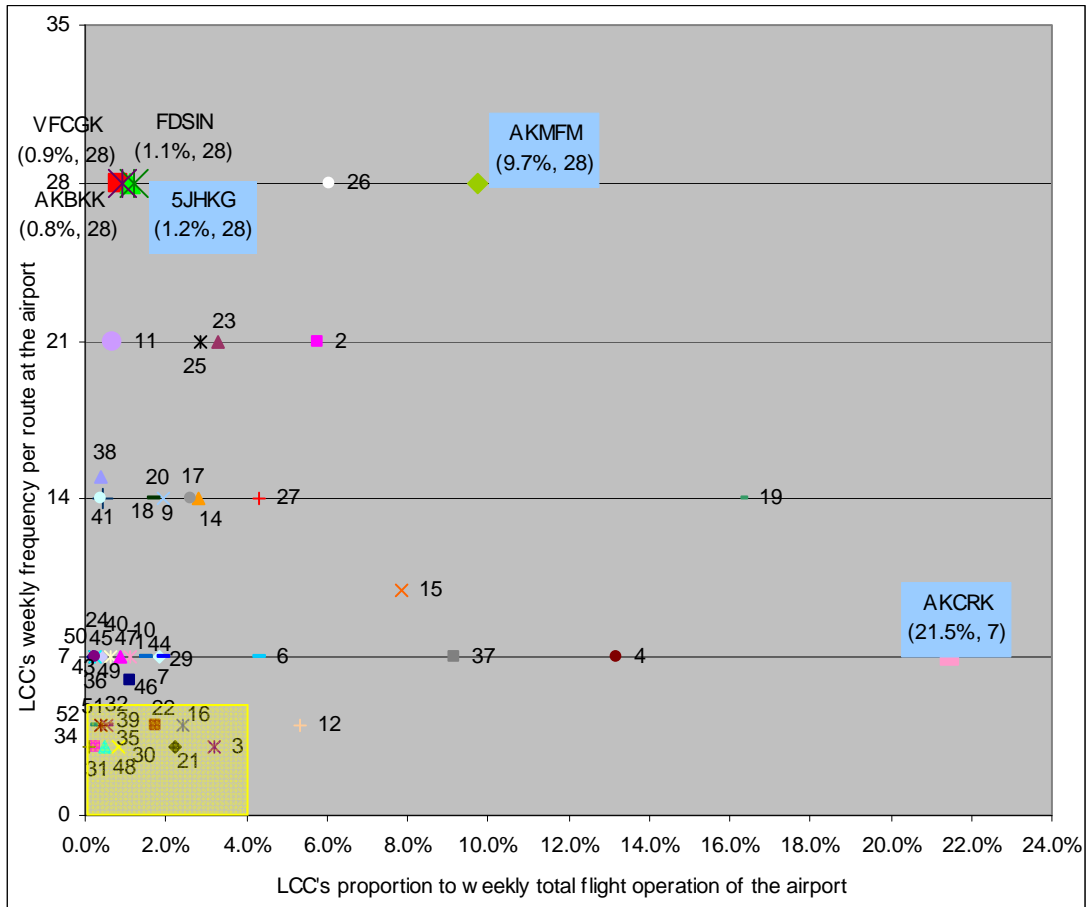


Figure 3.1: Inter-Dependence of LCC-Airport (Compiled from OAG, 2007b)

Using

Formula 3.1 and the above explanations, the inter-dependence of 52 cases (see Appendix I for detailed figures) have been plotted in Figure 3.1. Due to figure clarity within the presentation the cases most possibly representing configurations 1, 3, 7 and 9 are labelled with LCC and airport abbreviations. The remaining cases are labelled with a number while case details are compiled in Appendix A. Data of flight frequencies of LCCs and airports were collected mid-March 2008 and kept updated before interviews were conducted. The X-axis represents the proportion of LCC operations against the total airport operation. This is used to indicate the importance of the LCC to the airport, hence the dependence of the airport on the

LCC. The higher the proportion, the more important the LCC is to the airport, hence the higher dependence the airport has on the LCC. The Y-axis represents weekly LCC flights to the destination airport from each base airport. This is used to indicate the importance of an airport to the LCC, hence the dependence of the LCC on the airport. If weekly frequency reaches 28 flights, the airport is highly important to the LCC, hence the LCC highly depends on the airport. On the other hand, if the weekly frequency is seven flights or less, the operation is considered as a fill-in flight which carries low importance to the LCC. Hence the dependence of the LCC on the airport is low.

The cases representing extreme configurations (Casciaro & Piskorski, 2005) were chosen from Figure 3.1. LCC and airport cases labelled with abbreviations as in Figure 3.1 were the first consideration being more likely to fall into the extreme configurations. The AKBKK (Air Asia Malaysia at Bangkok Suvarnabhumi International Airport), VFCGK (Valuair at Jakarta-Soekarno-Hatta International Airport), FDSIN (Thai AirAsia at Singapore Changi Airport) and 5JHKG (Cebu Pacific Air at Hong Kong International Airport) fall into configuration 1. The AKMFM (Air Asia Malaysia at Macau International Airport) and AKCRK (Air Asia Malaysia at Clark Diosdado Macapagal International Airport) fall into configurations 7 and 9 respectively. The highlighted area at the bottom left hand corner of Figure 3.1 is enlarged in the next section in order to identify an extreme case for configuration 3. Defined as the most possible cases, the success of the study depended on the willingness of LCCs and airports to be interviewed! One and a half years later, after much effort, two LCCs, AK and 5J, as well as four airports, BKK, CRK, HKG and MFM, were successfully interviewed. They formed the four

extreme cases. These were AKMFM, AKCRK, 5JHKG and 5JBKK. The following sections will discuss their eligibility as extreme cases.

Configuration 1: Cebu Pacific Air at Hong Kong International Airport (5JHKG)

In this configuration, the airport has very low dependence on the LCC while the LCC has a very high dependence on the airport. Therefore, the airport enjoys a power advantage while their mutual dependence is mild.

Hong Kong was the first international destination of Cebu Pacific (5J). The LCC commenced a twice daily service between Manila-Ninoy Aquino International Airport (MNL) and Hong Kong International Airport (HKG) on 22 November, 2001 which was subsequently increased to thrice daily on 13 July, 2006 and four daily flights on 30 June, 2008. 5J also started four weekly flights between Mactan-Cebu International Airport (CEB) and HKG on 2 October, 2006 which was increased to five weekly flights on 25 January, 2007. 5J also started flying to HKG four times a week from Davao Francisco Bangoy International Airport (DVO) and daily from Clark Diosdado Macapagal International Airport (CRK) on 10 May and 8 November, 2008 respectively. Altogether, 5J operated 44 return flights per week from all four bases from The Philippines to HKG.

5J operated 28 weekly flights from MNL to HKG which was considered as of high importance to 5J, hence 5J's high dependence on HKG. In fact, 5J also mentioned in the interview that the route of MNL/HKG requires 5J to deploy one single aircraft to the operation which indicates that this single route is able to bear both direct operating and overhead costs of one single aircraft, making this route important to 5J.

On the other hand, at the time when cases were selected, 5J was operating 34 flights in total from MNL and CEB which only accounted for 1.2% of the total flight operation of HKG. HKG is classified as a level 3 airport having approximately 3,500 departure flights per week. It is believed that 1.2% of flight operations can barely represent 8% of passenger throughput at an airport with 3,500 departure flights per week. 5J was operating the Boeing 757-200 with around 228 seats per flight (The Boeing Company, 2008) and later operated the Airbus 319 with around 150 seats per flight (Cebu Pacific, 2005), while most of the other airlines were operating the Boeing 747 with more than 400 seats per flight. Therefore, 5J is considered as of low importance to HKG, hence dependence of HKG on 5J is low.

As 5J has high dependence on HKG while the dependence of HKG on 5J is low, 5JHKG forms a relationship which falls into configuration 1.

Configuration 7: AirAsia Malaysia at Macau International Airport (AKMFM)

Following the inaugural flight to Macau International Airport (MFM) from Bangkok Suvarnabhumi International Airport (BKK) by Thai AirAsia (FD) in July 2004, AirAsia (AK) also started flying to MFM from Kuala Lumpur International Airport Low Cost Terminal (KLCCT) in December 2004. The frequencies of flights from both BKK and KLCCT were once daily at the beginning, eventually increasing to four times daily in 2008. Two years after its inaugural flight to MFM, AK added another three routes to MFM from the other three hubs in Malaysia. These were Kota Kinabalu (BKI) in February 2007, Johor Bahru (JHB) in August 2007 and Kuching (KCH) in November 2007. As of Mid-March 2008, AK and FD flew 28 weekly flights from KLCCT and BKK, respectively. AK also operated seven flights

per week from both BKI and JHB, and three flights per week from KCH to MFM. In total, AK operated five routes and 45 flights while FD operated 28 flights per week to MFM.

In this configuration, both the LCC and airport are important to each other, therefore, they had equal power and high mutual dependence. As discussed in the above, AK operated 28 weekly flights from KLCCT to MFM, therefore MFM is considered as of high importance to AK, and hence the dependence of AK on MFM is high.

Table 3.4: AirAsia's proportion to the total passenger volume of MFM (Macau International Company Limited, 2007-2008)

Period	Percentage of Total Passenger Volume of MFM	AK share (62%)
Mar, 2008*	13.97%	8.64%
2007	12.84%	7.96%

* Figures for Jan-Feb 2008 were missing.

MFM handles 462 flights per week, therefore AK operated 9.7% (45/462) of MFM flights. However, could this 9.7% represent 8% or more of MFM's passenger throughput? Table 3.4 illustrates the proportion of AirAsia passenger volume to the total passenger throughput of MFM. The figures include both AK and FD while FD operated 28 flights per week from BKK to MFM. In total, AK and FD represented 12.84% and 13.97% of the total passenger volume of MFM in 2007 and March, 2008, respectively. At the time this data was collected, AirAsia operated a total of 73 weekly flights to MFM, in which 45 out of 73 flights (62%) were operated by AK, while 28 out of 73 flights (38%) were operated by FD.

This raised the question as to whether the operation of AK and FD should be considered as a whole or should be considered separately at this stage of case selection, because FD is not a wholly owned subsidiary of AirAsia and the legal

system between Malaysia and Thailand is different. However, even if FD is excluded, AK still contributed approximately 8% and 8.6% of the total passenger volume of MFM in 2007 and 2008, respectively. Therefore AK is considered of high importance to MFM; hence MFM has strong dependence on AK.

As the dependence of both AK and MFM on each other is strong, AKMFM is eligible to represent configuration 7.

Configuration 9: AirAsia Malaysia at Clark Diosdado Macapagal International Airport (AKCRK)

In this configuration, the airport dependence on the LCC is much higher than the LCC dependence on the airport. As a result, the LCC has power over the airport while their mutual dependence is mild. According to Figure 3.1, AKCRK is the most likely case to fall into this configuration. AK started operating one daily flight to Clark Diosdado Macapagal International Airport (CRK) from KLCCT and BKI respectively on 5th April, 2005 (AirAsia, 2005). Since then, the flight frequency has not changed.

AK operated a single daily flight to CRK from BKI and KLCCT, respectively. The routes from both bases are regarded as fill-in flights. Therefore, CRK is of low importance to AK, hence dependence by AK on CRK is low.

CRK has 65 flights per week. Classified as a level 1 airport it is actually an under-utilized and presumed to be more eager than level 2 and 3 airports in increasing flight activities. AK operated 14 flights in total per week to CRK which accounted for

21.5% of the total flight activity for CRK. In order to calculate whether this 21.5% can represent 8% of total passenger volume, the estimation of passenger load to AK flights and the comparison to total passenger volume of CRK are outlined as follows. AK flies its routes to CRK using the B737 and the seat capacity is 150 (The Boeing Company, 2008). With an average passenger load factor of 75% (AirAsia, 2005), AK carries approximately 81,900 passengers to CRK per year. Out of 224,497 CRK passengers in 2005 (Aguilar, 2007), AK represented approximately 36.5% of CRK passenger volume. Therefore AK is considered to be of high importance to CRK.

Dependence of AK on CRK is low while dependence of CRK on AK is high, therefore AKCRK is selected as a case for representing configuration 9.

Configuration 3: Cebu Pacific at Bangkok Suvarnabhumi International Airport (5JBKK)

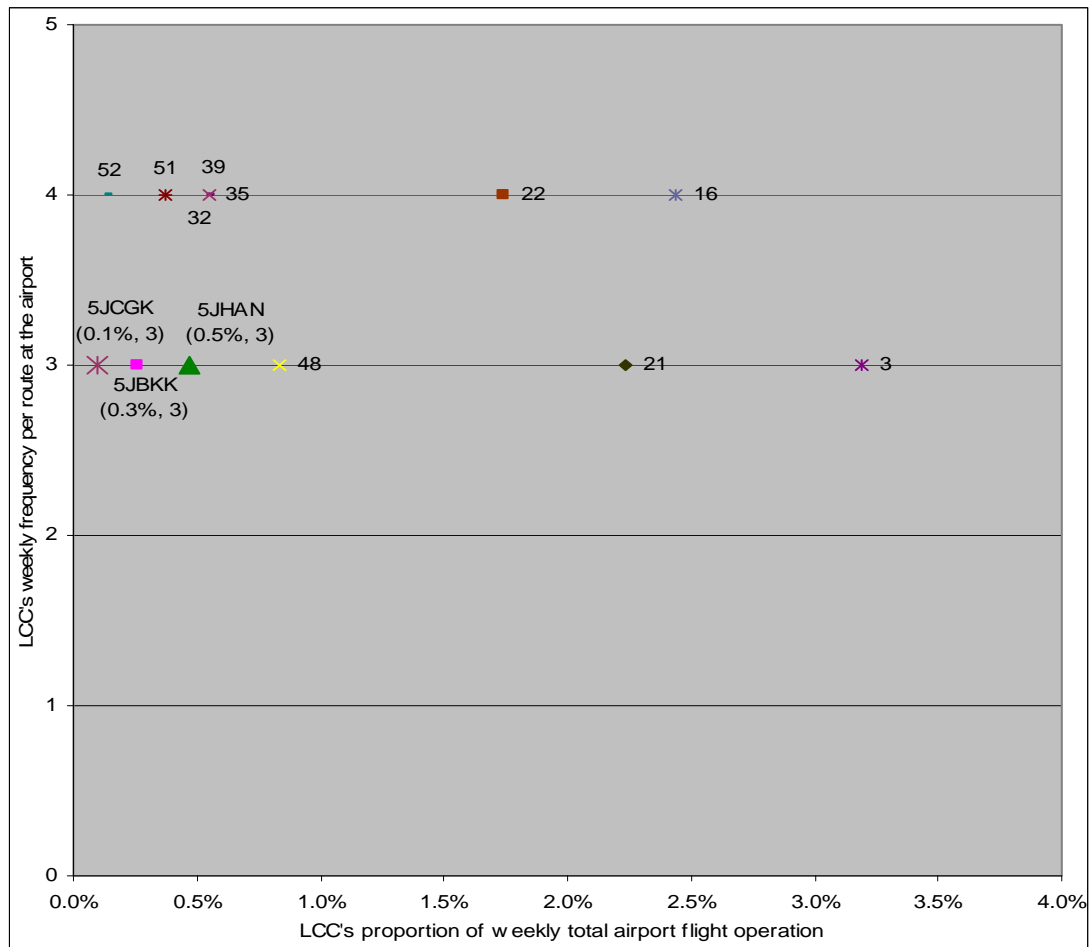


Figure 3.2: Possible cases for Configuration 3 (Compiled from OAG, 2007b)

The highlighted square in the bottom left corner of Figure 3.1 is enlarged to become Figure 3.2 in order to locate a possible case for configuration 3. In this configuration, both the LCC and airport is of low importance to each other, hence they have equal power but low mutual dependence

In Figure 3.2, 5JCGK (Cebu Pacific at Jakarta Soekarno-Hatta International Airport), 5JBKK (Cebu Pacific at Bangkok International Airport) and 5JHAN (Hanoi Nội Bài International Airport) are all possible cases for representing configuration 3. 5J and BKK eventually became willing to participate in this research study; therefore they were selected as the case in configuration 7.

5J operated seven flights per week from MNL and three flights per week from CEB respectively to BKK which were all regarded as fill-in flights. Therefore, BKK is of low importance to 5J; hence, dependence by 5J on BKK is low.

BKK is a level 3 airport, handling approximately 3,900 flights per week in 2006. There were ten flights from 5J operating out of 3,900 BKK weekly flights which only accounted for 0.3% of the total flight operation for BKK. This research suggests that as a level 3 airport, this low proportion of airport flight operation represented a limited contribution to passenger throughput. Therefore, 5J is considered as of low importance to BKK, and hence BKK is of low dependence on 5J.

As both 5J and BKK has a low dependence on each other, 5JBKK is selected as the case for configuration 3.

3.1.5. Data Collection

The main advantage of the case study is in its ability to include a wide variety of sources of evidence (Yin, 1994). Therefore, both secondary and primary data were collected for the study. The in-depth interview was the major source of primary data while newspapers, press release and annual reports in relation to LCCs and airports, were the main types of secondary data collected. This research ended the process of data collection when theoretical saturation had been reached (Eisenhardt, 1989; Guest, Bunce & Johnson, 2006).

3.1.5.1. Primary Data

Semi-structural in-depth interviews were the major instrument in collecting primary data for this study. The purpose of in-depth interviews was to collect the LCCs and airports points of view regarding how they establish and develop a business relationship with each other and what and how these factors affect the development of their business relationship. In order to collect required data effectively, a well-designed interview guide was prepared (see Appendix III and Appendix IV).

Semi-structured interview guide

The semi-structured interview guide has been designed to collect primary data for this study. This not only helps the author follow the plans to investigate, but helps prevent the interviews from being overwhelmed with too much data (Mintzberg, 1979). It also allows some flexibility in that the author can ask probing questions according to the answers received, which may encourage a new theoretical insight to help improve the current theory (Eisenhardt, 1989). Two preliminary interview guides were designed for the LCCs and airports respectively as shown in Appendix III. These were developed in order to ensure the effectiveness of research questions. The literature review discussion of business-to-business relationship theories suggested the scope for design of the interview guides. However, all questions listed in the interview guides were open-ended. This design allows interviewees to provide their own thoughts and insight which would not be confined by theories suggested in the literature review. The interview guide was structured to lead the interviewees into telling their story regarding development of LCC-airport relationships. The interview questions covered the following points: How they chose business counterparts, how they started their business relationship, how they got along with

each other, how they saw their relationship and how they saw each other. According to their story, the author asked probing questions in order to clarify what and how certain factors can affect their actions and reactions during the development of their business relationships. After use of the pilot interview with the industry expert, the preliminary interview guides were revised as shown in Appendix IV. The details of revisions made are reported within the section covering pilot studies.

Invitation procedures

Nine potential cases were selected from the pool available. These involved four LCCs, these being 5J, AK, FD and VF (Valuair), as well as seven airports, BKK, CGK, CRK, HAN, HKG, MFM and SIN. Senior management from these cases were targeted to become interviewees. These were chosen as they were responsible for policy formulation, negotiation with each other and decision making. However, the industrial expert suggested during the pilot study that managerial positions responsible for these issues varied from case to case. Some of the larger airports have a Business Development or Marketing Department to evaluate and negotiate with LCCs, while smaller airports may leave this issue to their Managing Director. Some LCCs have a Commercial or Route Development Department to deal with the issue, while some LCCs may be handled by their Managing Director. As the managerial positions vary from case to case the author could not ensure that these people are actually responsible for this issue. Therefore, the invitation letter was sent to relevant LCC and airport Managing Directors.

The invitation letter included a summary of research objectives and area as shown in Appendix II. These were sent to targeted interviewees via post and email in order to

give them a clear picture regarding the aims and scope of the research. As well as the unsolicited invitation letter, the author's supervisor also helped to arrange interviews with 5J, AK, CRK and HKG. The process of inviting senior management to participate in this research could be described as difficult, because they all have such busy schedules. Another distraction was that of the sudden global financial crisis in late 2008 together with a great leap in fuel prices. Unfortunately, the response from LCCs and airports was that they were extremely busy with these two issues and therefore could not participate at that time. This postponed the whole process of conducting interviews. Moreover, the numbers of eligible cases were limited. As one case involves one LCC and one airport, both parties have to be interviewed in order to form one case. This made the invitation process become much more difficult. With the help of the author's supervisor, two LCCs, 5J and AK, as well as four airports, BKK, CRK, HKG and MFM, forming the four extreme cases, were successfully interviewed.

Interview procedures

During the interview, permission to record the discussion was requested. However, all interviewees asked that their names and managerial positions were not to be directly quoted within the written report. Therefore, only names of LCCs and airports were quoted.

Interviews were conducted with the aid of the semi-structured interview guide. These not only asked about the facts of the issue, but also the respondents' comments and opinion regarding it. Their insight may become the concluded outcome for further investigation (Yin, 1994). Data was analyzed at the same time in concurrence

with the interview (Eisenhardt, 1989; Yin, 1994) and probing questions were asked accordingly to help answer the research questions.

Interview results were sorted and made ready for analyzing within a short period of time after interviews were conducted. This was done for the sake of memorizing every detail during the interview, such as the posture and body language of the interviewee. The reason for this was that posture and body language cannot be recorded into a recording device but may carry important indications in leading the interviewer to further investigate a particular issue.

3.1.5.2. Secondary data

As well as primary data, secondary data was also collected for the purpose of case selection and as a cross-reference to interview data. The secondary data used for selection were mainly flight frequencies of the LCC and airport. Secondary data to cross-reference with primary data was collected whilst the primary data was being analyzed. Secondary data such newspapers, annual reports, LCC and airport press releases as well as reports by government and private organizations, were collected for the process of triangulation in order to confirm or not confirm the evidence produced by the interviews. All information depicting and explaining the process of interaction between the LCC and airport were examined in this study. Multiple sources of evidence are essential in production of an unbiased case study report (Yin, 1994). As single types of evidence may not be efficient enough for sole measurement of the variables and constructs, multiple evidence sources should be adopted in order to ensure credibility (Lincoln & Guba, 1985).

Multiple sources of evidence are the rule of thumb and also a major strength of case study research. The principle of multiple evidence sources can ensure the avoidance of subjective judgment by collecting only one particular type of evidence (Yin, 1994). With multiple sources of evidence, the investigator can process triangulation (Eisenhardt, 1989; Yin, 1994) and produce converging lines of inquiry between different types of evidence (Yin, 1994). Therefore, the evidence can be cross-referenced to see if they all point to the same facts or phenomena. For example, 5J mentioned in the interview that Hong Kong is the most popular outbound destination for Filipinos. Therefore, the author tried to search for hard evidence such as the ranking of Hong Kong as a destination by Filipinos in order to proceed with the triangulation of interview data collected. The ability to provide multiple evidence and measures of data can ensure credibility of the findings (Lincoln & Guba, 1985). Cross-checking and cross-validating sources during data collection (Patton, 2002) are also considered an essential procedure to ensure dependability of the research result (Lincoln & Guba, 1985).

3.1.6. Data analysis

Data analysis is an important process in ensuring credibility of a case study. It is the investigator's responsibility to ensure immature and prejudiced conclusions should not be made due to careless data analysis or without considering all other rival explanations (Yin, 1994). Prejudiced conclusions could be drawn if the interviewer is biased by one or a few vividness (Nisbett & Ross, 1980; Yin 1994) or elite (Miles & Huberman, 1994; Yin, 1994) interviewee. The worst scenario may happen when the interviewer ignores contradictory evidence (Nisbett & Ross, 1980; Yin, 1994) and draws immature conclusions before saturation has been reached. Therefore, this

research study conscientiously follows the rule of multiple data sources and exhausts all data in the process of data analysis before drawing the conclusion.

Both Eisenhardt (1989) and Yin (1994) suggest that careful within-case analysis is an important step before cross-case analysis can be done. Therefore, data analysis of this study started with within-case analysis and was followed by cross-case analysis. Before within-case and cross-case analysis began, the author first proceeded to data management to ensure the data is in good order and become manageable (Ritchie & Lewis, 2003, pp 214).

3.1.6.1. Data Management

After interviews had been conducted and transcribed into word documents, the author was overloaded by the substantive amount of data. This indicates that data management is a very important process of qualitative data analysis (Ritchie & Lewis, 2003, p. 214). Data has to be manipulated and put into order before it can be analyzed (Yin, 1994). Ritchie and Lewis (2003, p. 214) suggest that the data management process is a step to identify concepts and themes according to the data. As a result, data was sorted and reduced into numbers of codes, concepts and themes which made it become manageable. The process is that of labeling and categorizing data clearly by concepts which enables researchers to carry out further analysis, matching and comparing between cases (Miles & Huberman, 1994). At this stage, the codes, concepts and themes should be close to the original language and meanings of interviewees which applied the techniques of open coding (Strauss & Corbin, 1990) and descriptive coding (Miles & Huberman, 1994). For example, when MFM mentioned in the interview that “... .. *we offer them a good price on*

airport charges” they were coded as “offered some discount on airport charges”. The code summarized what the interviewee said without changing the meaning. The purpose of this research is to study why and how LCCs and airports establish and develop business relationships with each other. It is a process that involves a chain of actions and reactions. Therefore, more attention was paid to the actions and reactions taken by LCCs and airports as well as the reasons for doing so.

3.1.6.2. Within-case analysis

Within-case analysis is a key process in the multiple case study approach because cross-case pattern matching can only be done after each case has been analyzed in detail (Yin, 1994). Without being familiar with each case by analyzing each in detail, it is impossible to proceed to the step of cross-case analysis. In the process of data management, raw data was coded and labeled. Meanwhile, the author also took this opportunity to become familiar with the cases. At the stage of within-case analysis, the author was able to tell the story of each case using the labeled codes. With the understanding of each story, the codes were categorized to a more abstract level. For example, codes such as “offered some discounts on airport charges and incentive program” and “gave up its normal practice of selling boarding pass” had been labelled to MFM. By considering the meaning of these codes and the actions of MFM, these codes were categorized into a more abstract level, “compromise”. As the code of “compromise” happened to appear in both MFM and AirAsia, “mutual compromise” was labelled to this case. By analyzing and coding the actions and reactions of the LCCs and airports, a number of abstract codes, such as “mutual compromise”, “mutual support”, “unilateral compromise” and “unilateral support” emerged in each case. These codes enabled the labeling of each type of relationship

within each case. For example, “mutual compromise”, “mutual support” “mutual strategic planning” and “strong mutual attachment” had been found in the case of AirAsia-MFM, therefore they were labelled as “Solid strategic-reciprocal LCC-airport Relationship”. Factors leading the LCCs and airports to such types of relationships were also identified and categorized. At this stage, a pattern of the relationship development process, significant factors existed at different stages of the process as well as and the reasons affecting that process emerged in within-case analysis. These identified factors and patterns of process were compared to the conceptual framework and to other cases later in the stage of cross-case analysis. After within-case analysis, a rich understanding of each case was gained from which cross-case analysis proceeded.

3.1.6.3. Cross-case analysis

The four cases were selected as they were under extreme scenarios of power and dependence. After within-case analysis, these four cases were compared in order to investigate how and why LCCs and airports interacted with each other differently and developed different relationships under the four extreme scenarios of power and dependence. The mixed strategy of combining case-oriented and variable-oriented approaches (Miles & Huberman, 1994) was applied to this study. The within-case analysis offered a standard set of variables, such as goals and interests, resources and capabilities, actions and reactions. These were studied within each case in order to examine the relationship development process pattern. Significant factors existed at different stages during this process and different reasons affected the process. In the cross-case level, a meta-matrix (Miles & Huberman, 1994) was applied to illustrate a general comparison of various variables between cases. In comparison, the range

and diversity of cases, pattern of their relationship development process and the influential factors emerged. If a contrasting pattern or polar type pattern (Eisenhardt, 1989) could be found between cases, then theoretical replication could be achieved which in turn enhances transferability of the research (Lincoln & Guba, 1985). Thereafter, the results and comparisons of each case were compared to the conceptual framework which was revised accordingly.

Data analysis started with data management, followed by within-case analysis and cross-case analysis. During the process of data analysis, not only confirming evidence was studied, but contrary evidence was also examined as carefully as possible in order to avoid any immature or biased conclusion. Hence, the trustworthiness in terms of credibility (Lincoln & Guba, 1985) can be enhanced.

3.1.7. Pilot Study

Pilot study is a trial version of a research that will be treated more intensively later (Black & Champion, 1976). This suggests that the pilot study is a step in refinement of major research. Holloway (1997) argues that the pilot study is not necessary for qualitative research because qualitative interviewers should gain some insight from previous interviews in order to improve subsequent ones, while some qualitative researchers incorporate their pilot study data into their main research (Teijlingen & Hundley, 2001) which makes no clear line between pilot study and major research. However, the author believes that a pilot study should be carried out for qualitative research and for a number of reasons as listed in the following section.

3.1.7.1. Purpose of conducting a pilot study

The pilot study can help qualitative researchers improve their data collection plans in terms of content of data, procedures and methods of collecting data (Black & Champion, 1976; Morse, Barrett, Mayan, Olson & Spiers, 2002; Tellis, 1997; Yin, 1994) as well as methods of categorizing data (Black & Champion, 1976).

Improve interview instrument

Two sets of preliminary interview guides in the format of semi-structured questions were designed. One was for interviewing LCCs while the other was for airports as presented in Appendix III. The pilot interview can help researchers test the interview instrument in order to avoid ambiguous wording of questions (Black & Champion, 1976). For example, the interviewees in pilot studies found it difficult to answer question number six of “*How much do you need this airport?*” and “*How much do you need this LCC?*” It may be because these two questions were too broad. On the other hand, the author found that their importance to each other could be reflected when the interviewees described how they interact with their counterparts. Therefore, the author deleted these two questions in the revised interview guide as shown in Appendix IV. The author also found that some questions in the preliminary interview guides overlapped each other. For example, questions number three and four in both preliminary interview guides were found to be similar in trying to examine how LCCs and airports identify potential business partners. Therefore, these two questions were combined into one question in the revised interview guides. Also, the pilot interview suggested that the broad questions, such as “*How do you describe the negotiation process with?*” and “*How do you describe your business relationship with?*” could give an overall picture of the relationships

between the LCCs and airports. They could provide some hint to the answers of other questions regarding their negotiation process and how they cooperate with each other during operation of their businesses. Therefore, the author re-arranged the sequence of questions and asked these broad questions at an earlier stage of the interview. This gave a better understanding when interviewees offered opinions regarding their negotiations and cooperation.

Some questions were found to be too specific, such as how airport discounts and ability to increase passenger throughput affect LCCs and airports in choosing business partners. These were considered as leading questions and possibly leading to bias. The reasons for this could be that interviewees may not always consider these issues, or other issues were more important at the time of choosing and negotiating with potential business partners. However, when these questions were asked, the interviewees inevitably discussed these issues further which may lead to bias. Therefore, the author deleted specific questions and kept the questions as open as possible which allows interviewees to respond more freely.

Develop a better approach to select cases

As this research was designed to study cases with extreme power and dependence scenarios, the author needed opinions from the industry expert to evaluate the dependence status of LCCs and airports upon each other. During the pilot interview, the industry expert suggested the benchmark of classifying low dependence and high dependence of LCCs and airports.

Develop rationale of categorizing data

As Black and Champion (1976) indicated, problems always occur in the categorization of data if open-ended questions are asked or content analysis is carried out. The method of data categorization affects the way in which within-case analysis and cross-case analysis are carried out for this study. Therefore, the pilot study of this research went through the whole research process from collection of secondary data, the interview and within-case analysis. This way, the researcher can be aware of the importance of certain types of secondary data and recurrent emphasis of certain points of view by the interviewees. The pilot study suggested additional possible categories of data for within-case analysis in the later stage. For example, the obstacles created by flag carriers were emphasized in the pilot study which suggested a possible category for the real case studies.

Provide insight into the issue

Yin (1994) suggests that a pilot study can usually provide considerable insight into issues being studied. With these empirical observations and information, together with ongoing literature reviews, final research design can be ensured in the reflection of theoretical points of view and relevance to the contemporary issue of reality. Through preliminary data analysis and suggested categorization of data from the pilot case, a rudimentary picture of issues were compared to theoretical points of view from the industry perspective. This encouraged more acquaintance with reality in the case interviews during the later stage.

3.1.7.2. Selection of Pilot Case

Yin (1994) suggests that convenience, access and geographic proximity are the major criteria for choosing a pilot case. In the beginning, the relationship between Oasis Hong Kong Airlines and Hong Kong International Airport was chosen as the pilot case for this research. However, Oasis Hong Kong Airlines gave no response to the invitation to participate in this research. The author had to search for alternative cases. The original plan was to study one whole case for the pilot study, which meant the LCC and airport had to have a business relationship. Owing to the limited availability of cases and difficulties of inviting LCCs and airports to participate in this research, the author later compromised on the reality and accepted the situation by interviewing an industry expert from each LCC and airport which did not have a business relationship. The experience held by these experts were those of: 1), an aviation consultant to many airports in Southeast Asia as well as Europe for many years, having substantial negotiation experiences with LCCs and 2), a senior manager of Nok Air in Thailand. The author believe that both are eligible in providing an insight into the issues and also able to achieve the purpose of conducting a pilot study.

3.2. Software

A substantial amount of data was collected from the interviews. In order to manage and analyze the data more efficiently and effectively, a qualitative research software was used. Comparison of the newly launched Qualitative Solution and Research (QSR) Nvivo 7 and Atlas.ti.5.2 were made. Eventually, Atlas.ti.5.2 was chosen as the author found the function of illustrating relationships between codes with diagrams was very user friendly. The software was only applied to the analysis of

primary data, while secondary data was still analyzed manually. The reason for this was because the format of some secondary data could not be recognized by the software and some secondary data was in the form of hard copy. The process to transform them into the format recognized by Atlas.ti.5.2 was going to be too time consuming.

3.3. *Ensuring Trustworthiness*

Research design and procedures of qualitative research are different to quantitative research. Therefore, the criteria for judging the quality of qualitative research should be different. Lincoln and Guba (1985) suggested four elements of criteria in order to enhance the trustworthiness of qualitative research. These are credibility, transferability, dependability and confirmability.

3.3.1. Credibility

Credibility within qualitative research is equivalent to the conventional term “internal validity” in quantitative research (Lincoln & Guba, 1985). This refers to the truth of findings and accuracy of analysis. This questions whether the thoughts and opinions of interviewees are described and interpreted accurately (Marshall & Rossman, 1989). Lincoln and Guba (1985) suggest seven major activities to ensure credibility. These are prolonged engagement, persistent observation, triangulation, peer debriefing, negative case analysis, referential adequacy and member checking. This research has mainly adopted the techniques of triangulation, peer debriefing and member checks. The technique of triangulation refers to data collection from multiple sources and informants (Maxwell, 2005). After collection of data from interviews, secondary data was collected for counter-checking the interpretation of

primary data in order to avoid bias. Data was also compared from both sides of the LCC-airport relationship in order to ensure the authenticity. In addition, other research students in The Hong Kong Polytechnic University assisted in peer debriefing in order to question the interpretation of data. One of the characteristics of qualitative research is conducting data collection and data analysis simultaneously (Ritchie & Lewis, 2003). Therefore, member checks were conducted at the same time as data collection. For instance, AirAsia suggested in the interview that it was willing to make concessions because of the market. This prompted a further question to enable AirAsia to explain more about “the market”. The same technique was also applied to other interviews which actually allowed the interviewees to interpret their own answers and avoid misinterpretation by the author.

3.3.2. Transferability

Transferability in qualitative research is parallel to external validity in quantitative research (Lincoln & Guba, 1985). External validity is concerned as to whether the study findings carry any generalization, while transferability refers to the extent of the theory which can be applied to another context. Marshall and Rossman (1989) suggest that multiple case studies can strengthen the transferability of theory. Therefore, this research adopts the replication logic in multiple case studies (Yin, 1994) which requires a theory to be tested with a second or even a third case. It means that if replication of the result occurs then this theory may be applied to other similar contexts. Lincoln and Guba (1985) also suggest that it is the responsibility of the researcher to establish a clear and sufficient data base which can help the future researcher evaluate the possibility of applying the theory to another context. The transferability very much depends on the degree of similarity between the context in

study and the applied context (Yin, 1994). Therefore, a robust description of the findings has been provided together within the context of each case in which to help future researchers make judgment on the application of the theory to other potential studies.

3.3.3. Dependability

Dependability (Lincoln & Guba, 1985) is parallel to reliability in quantitative research. This criterion questions the fact that if an investigator repeats the same case study at a later stage using the same procedures, he or she should be able to reach the same findings and conclusion. This actually refers to whether the research process is logically designed, whether the research process is traceable and documented and if the findings are consistent. In order to ensure dependability, the case study planning and procedures (Yin, 1994) are clearly documented in this chapter while details of interviews, such as place, date, time and the organization being interviewed are documented clearly in Appendix I, II, III, IV and V. These documents aim to enable other investigations replicate the same case study.

3.3.4. Confirmability

Confirmability in qualitative research is parallel to objectivity in quantitative research (Lincoln & Guba, 1985). Confirmability questions whether the findings and interpretation of data is not the product of the researcher's subjectivity, but based on the interviewees' perspectives. The most common critique of the case study is that the investigators may collect data according to subjective judgments which makes them not able to develop a sufficiently operational set of measures (Yin, 1994). In this research study, multiple sources of evidence and chains of evidence were

collected in order to ensure confirmability. Multiple sources of evidence can eliminate the chance of subjective judgment on selecting sources of data. Instead, the available sources of evidence were all used in this research. The chain of evidence was established and shown in the report in order to guide the readers from the research questions asked, evidence collected and to the conclusion drawn.

A careful plan of research and a robust implementation of the plan in the aspect of data collection, data analysis and report composition ensure credibility, transferability, dependability and confirmability of this study. Although careful research design can ensure the quality, some limitations to the study cannot be avoided. A discussion of the limitations to theory building from a case study and the limitations of this research is presented next.

3.4. *Limitations to theory building from a case study*

A good model or good theory needs to be parsimony (Eisenhardt, 1989; Ritchie & Lewis, 2003). However, there is a risk that theory built from the case study can be very complex. This is because the case study adopts a bottom up approach which builds the theory from data collection as researchers tend to obtain as much information as possible. Moreover, it may be difficult to evaluate the importance between variables and relationships due to lack of quantitative analyzing tools (Eisenhardt, 1989). Therefore, the resultant theory tends to be very detailed.

The single case study may result in a narrow and idiosyncratic theory (Eisenhardt, 1989) which can only represent the phenomenon of one particular case. The multiple case approach may be able to raise the level of theory generality. The ability to

generalize qualitative research is often criticized. Yin (1994) suggested that the case study can reach analytic generalization, rather than statistical generalization, which means that previously developed framework can be used as a template to be compared with the empirical results of case studies. Replications can be claimed to be made if the empirical results from two or more cases support the same theory (Yin, 1994). Also, qualitative research does not follow the logic of generalization as quantitative research does. Instead, qualitative research can achieve transferability which refers to whether the findings of this research can be applied in other contexts.

3.5. *Limitations of this study*

Authenticity of the interviewees is considered as one of the limitations. Questions within the interview guide involved much confidential and sensitive information, therefore the interviewees, who were LCC and airport senior managers, may not be willing to disclose all information they have even if they know the truth. Because of this the data collected was compared to both sides of one LCC-Airport relationship and then evaluated. This confirmed whether the data was accurate or not. The author also collected secondary data in order to support or reject the primary data.

Interpretation of responses is one of the limitations to qualitative study. Primary data of the qualitative study is mainly collected from interviews, while the analysis is based on the interpretation of responses by the interviewees, in which a biased interpretation may be resulted. The design of this research, characteristics of the in-depth interview, together with the strength of the semi-structured interview, can help this research minimize the limitation. The design of this research is to conduct in-depth interviews with the aid of a semi-structural interview guide with both the LCC

and airport in order to study one dyadic LCC-airport relationship. This means that two rounds of interviews were conducted in the investigation of one dyadic relationship. If the LCC is interviewed in the first round, then the airport is interviewed in the second and vice versa. For example, if the LCC within the relationship is interviewed first, the interview result is analyzed and interpreted before interviewing the airport in the same relationship. In-depth interviews allow interviewers to interpret the responses from interviewees simultaneously when the interviews are being conducted. On the other hand, semi-structural interview questions allow the interviewers to probe questions during the interviews. Therefore, during the airport interview, if any contradiction is discovered within the interpretation results from the first round of interviews with the LCC, further probing questions can clarify these contradictions through the airport interview. If clarification from the airport interview proved that the interpretation of LCC responses is incorrect, then the LCC can be contacted again to clarify and rectify the misinterpretation. By doing so, this limitation can be minimized.

The scope of this study is confined to Southeast Asia which is the major limitation of this study. The research findings are only that of the LCCs and airports in Southeast Asia which potentially limits the context of this study to countries within Southeast Asia only. Further research of other regions in the future is recommended in order to enhance or modify the framework of this study.

The number of eligible cases is unfortunately very limited. Moreover, there is only one eligible case in configurations 7 and 9. Therefore, this research can only study

one case for each extreme scenario. As a result, this research is unable to conduct a cross-case study within the same group analysis (Eisenhardt, 1989).

CHAPTER 4. Findings and Discussion

This chapter reports and discusses the case study findings. From these results, a theory based on the findings of LCC-airport relationship development process is suggested at the end of this chapter. This research investigated the development process of LCC-airport relationships. This includes the process of preparing to develop a relationship, establishing the relationship, growing the relationship as well as the relationship outcome of LCCs and airports. The report and discussion of findings are compiled according to various stages of the relationship development process as shown in Figure 4.1.

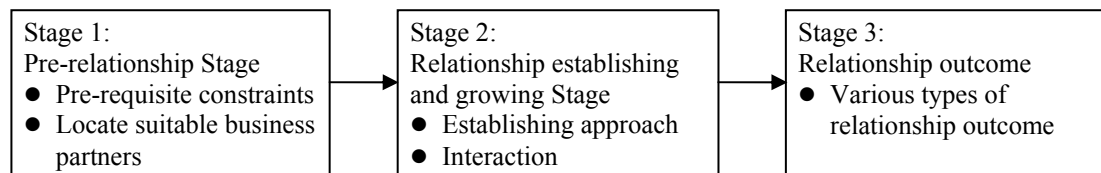


Figure 4.1: Stages of LCC-airport relationship development process

As shown in Figure 4.1, the LCC-airport relationship development process is found to consist of three stages. These are pre-relationship stage, relationship establishment and growth stage, as well as relationship outcome. The pre-relationship stage includes events that happened before the LCC and airport interact with each other in establishing a business relationship. At this stage, this report discusses the pre-requisite constraints which limit the freedom of the LCCs and airports to establish a business relationship with each other. Also, how they locate a suitable business partner is discussed. From here, they enter the relationship establishment and growth stage. This stage includes the discussion of the relationship establishment approaches and the analysis of interaction between LCCs and airports. The cases show two different relationship establishment approaches. The comparisons between cases have been conducted too, in order to identify what

and how certain factors can affect the development of their business relationship. In stage 3, the findings and discussion of the relationship outcome and how they achieve such an outcome is presented. At the end of this chapter, a theory of the LCC-airport relationship development process, which is able to answer all research questions stated at the beginning of this report, is presented and discussed.

Stage 1: Pre-relationship Stage

4.1. *Pre-requisite constrains*

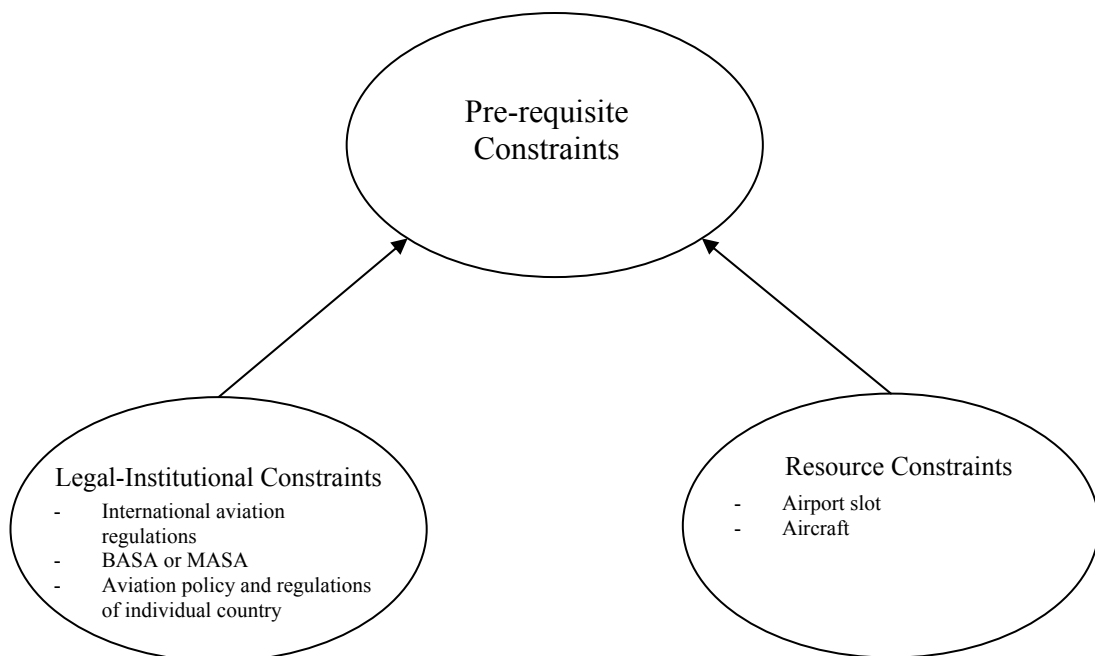


Figure 4.2: Composition of pre-requisite constraints

The case studies reveal that there are two types of pre-requisite constraints. These are legal-institutional constraints and resource constraints as shown in Figure 4.2. The legal-institutional constraints include international aviation regulations, BASA or MASA and aviation policy and regulations of the individual country, which coincide with the discussions held in literature reviews. The resource constraints include airport slots and aircraft that were not found within the literature. The pre-requisite

constraints act as a boundary and exclude those LCCs and airports which cannot comply with the legal and institutional system, or do not have suitable resources for exchange. In other words, LCCs and airports can only view each other as potential business partners if they can overcome the legal-institutional constraints as well as resource constraints. In addition, the cases suggest that development of the business relationships between LCCs and airports would be continuously limited by pre-requisite constraints. Also, an inference of government attitude towards development of the LCC as one of the pre-requisite constraints was suggested within the literature review. However, the case study findings suggest that government attitude may not be one of the pre-requisite constraints. Government is found to have authority to tighten or loosen legal-institutional constraints, while their attitude toward the LCC is found to have an influence on their intention to tighten or loosen the legal-institutional constraints. Local carriers are found to create impediments in establishment of the LCC-airport relationships by influencing governments on licensing and influencing airports on slot allocation. This section discusses the legal-institutional constraints, resource constraints as well as the influence of government and local carriers on the pre-requisite constraints.

4.1.1. Legal and institutional constraints

Literature reviews have already suggested that LCCs and airports have to comply with international aviation regulations, BASA or MASA, aviation policy and regulations of the individual government before they can start a business relationship with each other. The case study findings also suggest the same point of view as shown in the following quotations.

AirAsia:

“We originally wanted to operate into Manila Airport but due to lack of traffic rights, we had to look at an alternative airport”

MFM:

“If an airline meets the standard of safety, fulfil all the application procedures and licensing procedures, government has no reason to obstruct them.”

CRK:

“The growth of aviation is also a function of aviation policy, whether you want to open yourself or you want to keep the privilege for the local carriers to be able to compete.”

“... .. if we have ASA with countries and make the necessary application with the aviation authority. It's (The commencement of AirAsia at CRK) not like an automatic thing.”

BKK:

“... .. if they (LCCs) comply with everything stated in the law, the government agency, then it is fine”

HKG:

“If any airline wants to fly to HKG, first of all, they have to see if there is any ASA between their countries and Hong Kong... .. then they have to see

if there are any available flights (allotment stated in BASA). Even if there are traffic rights, they are still limited by the number of flights stated in ASA After this, they have to apply for the operational permit from the Civil Aviation Department of Hong Kong. All foreign airlines need operational permits for them to operate in HKG.”

The above interview quotations reveal that ASA, traffic rights, necessary licenses from the local aviation authority and aviation policy, form legal-institutional constraints. This confirms the view from the literature review that international aviation regulations, BASA or MASA, aviation policy and regulations of the individual government, create pre-requisite constraints in confining the freedom of LCCs and airports in establishing a business relationship with each other. Interview quotations clearly indicate that LCCs and airports are not allowed to establish a business relationship if they are not able to comply with any part of the legal-institutional requirements. In addition to be pre-requisite constraints, legal-institutional constraints continuously confine future development of the LCC-airport relationships. The continuous limitation of legal-institutional constraints can be further explained by the cases of AirAsia-MFM and Cebu Pacific-HKG.

The case of AirAsia–Macau International Airport

The BASA and older Memorandum of Understanding (MOU) between Macau and Malaysia were signed in 1995 which limited the flight capacity to seven per week by each side (Government Information Bureau, 2006). On the other hand, the BASA and older MOU between Macau and Thailand was signed in 1995 which limited the fifth freedom of traffic on a conditional basis of seven flights per week and single

airline designation by each side (Civil Aviation Authority of Macao SAR, 2004). As a result, AirAsia and Thai AirAsia could only operate one daily flight to MFM from KUL and BKK respectively, from the beginning, even though market demand may be able to support a twice daily flight or more. When AirAsia was planning to increase its operation to include MFM, the plan was confined by the older MOU. Therefore, a new MOU was needed which could allow the increase in flights. On 20th September, 2004, a new MOU was concluded between Macau and Thailand which put no limitations on capacity and frequency, allowed full fifth freedom traffic rights, multiple airline designation and code-sharing services (Civil Aviation Authority of Macao SAR, 2004). On the other hand, a new MOU between Macau and Malaysia was also signed on 20th April, 2006 which removed all limitations on frequency, the type of aircraft and the number of beyond points, also allowing full fifth freedom rights (Government Information Bureau, 2006). Immediately after the effective dates of the new MOU, AirAsia added a second daily flight to MFM from BKK and KUL in October 2004 and December 2006 respectively. Without the new MOU signed by the bilateral governments, AirAsia was unable to expand their operation to MFM under the regulatory boundary preset by the authorities.

The case of Cebu Pacific-Hong Kong International Airport

After six years of operation between the Philippines and HKG, Cebu Pacific wanted to expand its operations and introduced direct flights between CRK and HKG. However, HKG could not approve their application to operate these flights because the agreed allotment of flight frequencies within the BASA between the Philippines and Hong Kong were totally allocated to Philippines Airlines (Cebu Pacific, 2007). HKG also said in the interview that:

“They (Cebu Pacific) wanted to increase flight frequencies, but the numbers of flights stated in the ASA were all allocated. We coordinated with the Transport and Housing Bureau (THB) that if we can make an Extra Bilateral Extra bilateral is something in addition to what’s already in the BASA.”

As a result, HKG coordinated with THB and arranged extra Bilateral to Cebu Pacific which meant that the Hong Kong SAR Government increased flight frequencies on top of the original BASA and made it possible for Cebu Pacific to increase flight frequencies to HKG. The interviews quoted above, as well as the examples of AirAsia-MFM and Cebu Pacific-HKG demonstrate how legal-institutional constraints act as pre-requisite constraints and continuously frame the future development of LCC-airport relationships.

4.1.2. Resource constraints

Availability of resources, such as airport slots and aircraft, were mentioned as pre-requisite constraints during the interview as shown in the following quotations.

AirAsia:

“... .. they (HKG) didn’t have room for LCCs because HKG airport is very busy, the slots are very tight, and all the slots can be described as golden slots. As a result, they don’t want to waste t resources on LCCs... ..”

MFM:

“... .. if our airport is full and we don’t have any slot, then we will not think about the LCC”

“... .. we requested them to add another two or three destinations, but they (AirAsia) still need some time to arrange their fleet.”

Cebu Pacific:

“Hong Kong is such a busy airport. It really took some time for us to apply for a slot”

“The other thing is aircraft. We are flying A320 and A319 which has a 4-5 hour flying range. So we pin Manila on the map and draw a circle of 4-5 hours flying range to see where we can go. Well, we would love to fly to Dubai. If we take an A320 off from Manila to Dubai, it will come down somewhere in the India Ocean. It will run out of fuel.”

Airport slots and aircraft are the most critical resources between airports and LCCs. Neither party could start any type of business relationship if LCCs do not have suitable aircraft available, or airports do not have any airport slot available. These issues were not considered in constructing the conceptual framework because availability of convenient slots had been mentioned as a selection criterion of the airport, while suitability and availability of aircraft was not mentioned within available literature. However, the chance for LCCs and airports to start a business relationship is very marginal if there is no slot available at airports or LCCs do not

have spare or suitable aircraft, as they simply do not have the resources to exchange. Cebu Pacific indicated clearly that the flying range of its fleet preset a limitation to its selection of destinations. It could only establish business relationships with airports within its aircraft flying range. In addition, the quotation by MFM suggested that the availability of AirAsia aircraft continues limiting its development at MFM. Therefore, as the legal-institutional constraints, resource constraints appear to have a continuous influence on the development of the LCC-airport relationship.

The above discussion exemplifies how legal-institutional constraints and resource constraints constitute as pre-requisite constraints and how they continuously limit the freedom of LCCs and airports to further develop their business relationship. The literature review suggests that government attitude may constitute one of the pre-requisite constraints. However, the case study findings do not support this point of view. Instead, the findings suggest that governments and local carriers have influence over the pre-requisite constraints. The reasons why government attitude is not considered as one of the pre-requisite constraints are explained in the following sections. Influences of governments and local carriers on pre-requisite constraints are also presented.

4.1.3. The role of government attitude

As mentioned within the literature review, Kua and Baum (2004) is the only information found to examine government attitude towards LCCs. In the conceptual framework, this study initially considered government attitude towards the development of LCCs constituted a pre-requisite constraint for the emergence of LCCs. Pre-requisite constraints limit the freedom of LCCs and airports to establish

business relationships with each other. If government attitude acts as a pre-requisite constraint, this implies that it plays the same role as laws and regulations limiting the autonomy of LCCs and airports in establishing business relationships. However, the study findings do not support this point of view as revealed in the following quotations.

MFMM stated that:

“(The) Macau SAR Government is supportive... ... If an airline meets the standard of safety and fulfil all the application procedures and licensing procedures, (Macau SAR) government has no reason to obstruct them.”

BKK said that:

“... ... the (Thai) government does not hold a serious attitude if they (LCCs) comply with everything stated in the law, the government agency, then it is fine”

The above quotations from interviews clearly suggest that government attitude, whether supportive or unsupportive, cannot limit the freedom of LCCs and airports in establishing business relationships if both comply with laws and regulations. The Macau SAR and Thai Governments hold two different attitudes towards the development of foreign LCCs at their airports. The Macau SAR Government has a welcome and supportive attitude towards foreign LCCs. In contrast, the Thai Government does not have any particular attitude, which implies that they have an indifferent attitude towards foreign FSCs and LCCs. The question is whether the indifferent attitude of the Thai government would constitute a pre-requisite

constraint. The Thai Government does not create any particular difficulties for LCCs because they face the same legal-institutional requirements as FSCs. With different government attitudes, both MFM and BKK indicated that LCCs and airports are allowed to start business relationships if both parties comply with all regulations and gained approval of necessary licenses. According to the discussions above, the freedom of LCCs and airports in establishing business relationships is not restricted by government attitude. Therefore, there is no evidence to support the view that government attitude can constitute a pre-requisite constraint.

It is another question if government attitude towards the development of LCCs can affect aviation policy and the BASA negotiations. If it does, then it may in turn become a pre-requisite constraint. Theoretically speaking, a government could limit foreign LCCs development through its aviation policy if they did not hold a positive attitude towards foreign LCCs. However, governments do not normally consider the development of LCCs when deciding its aviation policy (Forsyth et al., 2006). Therefore, as MFM and BKK suggest in the interviews, the LCC and airport may start a business relationship of their own accord if they complied with all regulations and obtained all necessary licenses. However, government attitude has been found to act as a backstage director and has subtle influences on legal-institutional constraints which are discussed next.

The cases of AirAsia-CRK and AirAsia-MFM exemplify the influence of government attitude on pre-requisite constraints. CRK is north to Manila and is a one hour drive from the Manila Metro, the Philippine capital. It is also closer to the northern and central part of the Philippines where most Overseas Filipino Workers

(OFWs) reside. The airport is within four hours flying time from many places in Malaysia, Japan, Korea, China, Taiwan, Hong Kong, Singapore and Thailand. Moreover, there is plenty of land at Clark for the future expansion of CRK. Therefore, since the beginning of transforming CRK from that of military to a civil aviation airport, the Philippine Government had already designated CRK to be the future primary gateway of the Philippines when MNL reached its full capacity. With this target, the Philippine Government hold a supportive attitude towards the development of AirAsia at CRK, particularly when there is only one passenger airline, Asiana Airlines, operating at that time. AirAsia said in the interview:

“The government (Philippine Government) was very supportive towards the development of AirAsia at Clark, for example, approval was given to AirAsia outside the remit of the air services agreement to allow operations into Clark although traffic rights were not available at that time.”

CRK also counter proved the attitude of the Philippine Government by the following statement:

“(The) Philippine Government is very positive. (The) Philippine Government will continue to support AirAsia.”

This demonstrates that the Philippine Government provided substantial support for the development of AirAsia at CRK. The support was not in verbal terms, but practiced in action which eased the legal-institutional constraints for AirAsia. As a result, AirAsia was allowed to operate into CRK outside the original limit of traffic

rights. This allowance was given on the basis of extra bilateral and must comply with the legal system. Within the limitations of existing legal-institutional constraints, governments have full discretion over the granting of extra bilateral. The author believes that governments will exercise their discretion if it holds a supportive attitude towards the airlines. Additionally, governments can also provide assistance to LCCs in the licensing process. MFM clearly pointed this out:

“(Government attitude is) very important. If an airline meets the standard of safety, fulfil all the application procedures and licensing procedures, government has no reason to obstruct them, right? However, if government is supportive and constructive, the whole thing (licensing process) can be processed smoothly. In fact, the Civil Aviation Authority (AACM) is supportive and cooperative to the whole (licensing) process.”

MFM claimed in the interview that supportive government attitude is very important in the development of LCC-airport relationships. It was not so in the case of the Macau SAR government who designed a different licensing process for LCCs. AirAsia still faces the same licensing process as other airlines. However, the licensing process can be made smoother and speeded up with government support. The licensing body processed AirAsia’s application more efficiently. Although these actions provided substantial assistance to the establishment of a business relationship between AirAsia and MFM, they are conducted within the boundaries of legal-institutional constraints and are legally eligible.

On the other hand, in the case of CRK, it also shows how government attitude can help development of an airport. Hence, the development of LCC-airport relationships can be facilitated. CRK stated:

“Civil Aviation Authority will do this (negotiation of BASA), under the Ministry of Transportation. But the good thing is that the President sees the importance of Clark, and makes Clark a member of them. So, every negotiation with other countries, we are there. We are in a good position. And because of this we are slowly trying to get flight allocation just for Clark.”

Traffic rights can be described as one of the most critical issues in developing LCC-airport relationships. This is because traffic rights means permission by airlines to fly to an airport and an airport to accommodate the airlines. Owing to the ambition of developing CRK to become the primary gateway of the Philippines, the Government made CRK a team member of negotiating ASAs with other countries. This provides CRK with a good position to obtain exclusive traffic rights and flight allocation between airports in the Philippines which gave an absolute competitive advantage to CRK in developing business relationships with LCCs.

There is no evidence from the case studies to suggest that government attitude constitutes part of the pre-requisite constraints and restricts the development of the LCC-airport business relationships directly. This is because the government had no juridical grounds to do so if the LCCs fulfilled all licensing procedures and complied with all laws and regulations. In contrast, the supportive government attitude is

found to provide substantial help to LCC-airport relationship development by making the legal-institutional constraints easier. The case of AirAsia-CRK and AirAsia-MFM exemplify that supportive government attitude can ease the legal and institutional constraints in allowing the LCC and airport to develop a business relationship, smooth and speed up the licensing process, as well as help airports to obtain more traffic rights and flight allocation within BASAs. However, government attitude cannot explicitly over-ride laws and regulations. Instead, government supportive attitudes and influence on legal-institutional constraints can only be shown in a subtle way and are still framed by the legal system. Moreover, governments may have a practical reason to show their support in a subtle manner because they have the responsibility to balance the benefits of all stakeholders.

As stated by AirAsia in the interview:

“I believe in the case of MFM, yes, government is playing some kind of role I believe government supported the whole thing behind the scenes. But they (Macau SAR Government) did not show any enthusiasm, and they did not get involved explicitly... .. It is because we are not a local carrier in Macau, we are a foreign carrier, they have to consider the local market development, they have to consider if we will compete with and affect Air Macau.”

Even if governments hold a supportive attitude towards the development of LCCs, they cannot establish another legal environment particularly for LCCs. In order to maintain a fair environment to all stakeholders, especially flag carriers, governments

can only provide subtle assistance to LCCs which is limited by existing legal-institutional constraints. Therefore, this research considers government attitude can act as a backstage director in that it has subtle influences on legal-institutional constraints.

4.1.4. The role of local carrier

According to the case study findings, local airlines can be described as obstruction creators to the LCC-airport relationship development as local carriers have been found to create various types of impediment to hinder LCCs and airports passing through the pre-requisite constraints.

For instance, AirAsia said in the interview:

“... .. (there was) rumour said the LCC will squeeze other airlines out of business. This rumour frightened some people. At that time, Air Macau was frightened. Their response was quite strong; they worry about whether this LCC is going to compete with us. We want MFM to coordinate with other local parties and promote the LCC let the Tourism Board and Civil Aviation Department in Macau know that we are complementary, instead of competition to the existing operators.”

This implies that Air Macau, as a local carrier, can exert influence on the Macau SAR Government and create impediments to AirAsia's establishment at MFM. Although AirAsia did not state this clearly, the interviewer could sense that AirAsia may have been confronted with significant difficulties should Air Macau

continuously imposes its influence on the Macau SAR Government. Therefore, AirAsia claimed that it needed assistance from MFM to clear any rumours. At the same time, HKG also suggested that the local carrier would try to influence government and obstruct the emergence of LCCs.

HKG claimed in the interview that:

“Cathay Pacific, of course tried to convince the HK SAR Government while Philippine Airlines of course tried to convince the Philippine Government, that the market did not need any extra capacity for sure their base carrier obstructed their development. This is very obvious. The airlines have flown this route already; of course they don’t want more competition.”

Cathay Pacific (CX) and Philippines Airlines (PR) as stakeholders of routes between HKG and the Philippines certainly want to protect their interest by preventing new competitors entering the market. Therefore, their intention was to convince the HKSAR Government and the Philippine Government respectively not to increase flight capacity within the BASA. In comparison to the case of AirAsia-MFM and Cebu Pacific-HKG, the influence of local airlines may be more explicit in the case of AirAsia-CRK. CRK suggested in the interview:

“Approval from the Civil Aviation Authority, there are lots of procedures for getting a foreign carrier permit, it is a very long

application process. Because they need to hear if there are local airlines to make objections”

AirAsia also stated that:

“(The) Agreement had to be secured from local airlines in the Philippines before AirAsia commenced operations to Clark i.e. the local airlines had to agree to AirAsia’s services to Clark.”

Both AirAsia and CRK indicated that local airlines can object to the application of a foreign carrier operating into the Philippines. The actions of local airlines may prolong or even cause the application to be rejected. The case of Cebu Pacific-BKK illustrates an even more fundamental influence of the flag carrier, Thai Airways. BKK stated that:

“In Thailand, the major influential people are Thai Airways, the national flag carrier for example, for the slot assignment; the major role playing is Thai Airways, not Thai Airport”

BKK indicated that there was an unwritten practice in Thailand that Thai Airways International (TG), the flag carrier of Thailand, is really controlling the slot allocation of BKK. However, Cebu Pacific claimed that they only applied for the slot from BKK, but had never contacted Thai Airways. It appears that BKK has control over the airport slot in name, but TG is playing a strong influential role. As discussed above, airport slot allocation is the most critical resource for LCCs and

airports to start business relationships. Without an airport slot, LCCs and airports are not able to start any business relationship even if they want to do so. In this sense, TG actually controls the freedom of BKK to start business relationships with any LCC or any airline through the control of the airport slot of BKK.

Although AirAsia-MFM, AirAsia-CRK, Cebu Pacific-BKK and Cebu Pacific-HKG are eventually able to start business relationships, the actions of local airlines described above created impediments to the establishment of the LCC-airport business relationship by imposing pressure on governments, objecting to emergence of foreign LCCs or influencing airport slot allocation directly. The local carriers may not be able to create pre-requisite constraints on their own, however, they create uncertainties to LCCs and airports which decrease their possibilities to pass through the pre-requisite constraints.

4.1.5. Overview of Pre-requisite Constraints

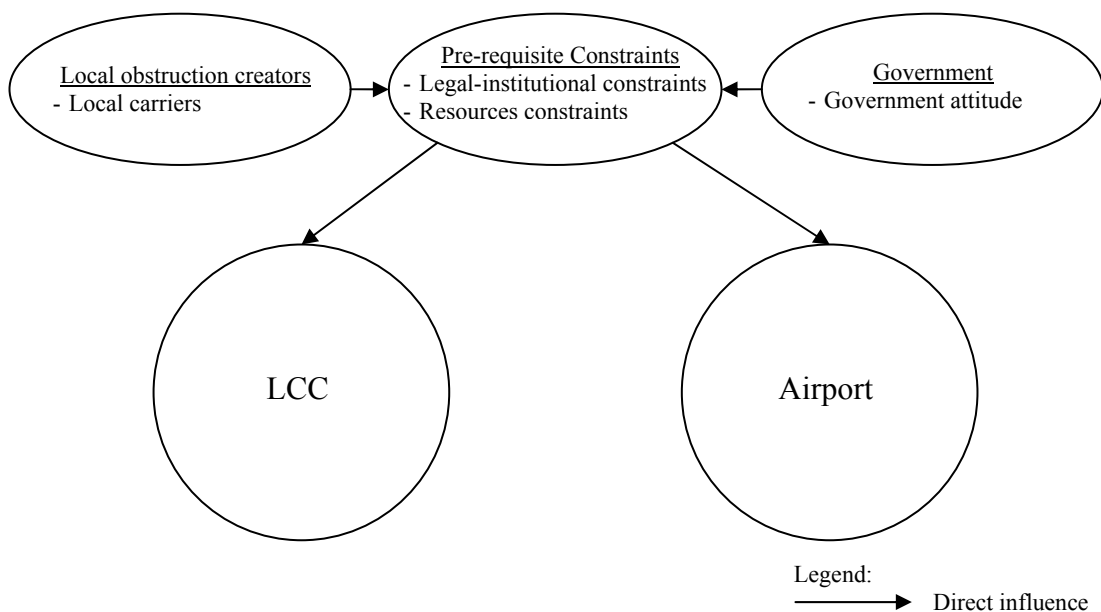


Figure 4.3: Pre-requisite constraints of LCC-airport relationships

Figure 4.3 illustrates and details the pre-requisite constraints for the establishment of LCC-airport business relationships. There are two types of pre-requisite constraints; these are legal-institutional constraints and resource constraints. Legal-institutional constraints include international aviation regulations, BASAs or MASAs, and aviation policy and regulations of the individual country. Resource constraints include the availability of airport slots as well as availability and suitability of aircraft. The pre-requisite constraints have been found to continuously frame the whole development process of the LCC-airport relationship. This is because LCCs and airports have to continuously comply with international and local regulations and are limited by BASAs or MASAs, aviation policy and also availability and suitability of their resources, even after they have established a business relationship. There is also no evidence to support the view that government attitude is part of the pre-requisite constraints. Even if governments hold an unwelcome or indifferent attitude towards the development of foreign LCCs, LCCs and airports still have the freedom to establish a business relationship with each other if they comply with all rules and regulations. In contrast, a supportive government attitude can expedite the process of establishing LCC-airport business relationships by granting extra bilateral to LCCs, by smoothing and speeding up the licensing process as well as helping airports obtain more traffic rights and flight allotments within BASAs. However, these supportive actions taken by governments conform to legal-institutional constraints. Governments cannot override the legal-institutional constraints explicitly. Instead, a government can show their supportive attitude and provide assistance to LCCs and airports in a subtle way. Even though the government attitude and actions are subtle and implicit, they carry an important meaning in the development of the LCC-airport relationships. Governments have absolute discretion in exercising their supportive or

discouraging actions according to their attitude, provided they comply with laws and regulations. Theoretically speaking, if supportive government attitude can help LCCs and airports pass through the legal-institutional constraints, then an unsupportive government attitude can impede that of LCCs and airports to do the same. It is believed that government attitude actually acts as a backstage director which subtly helps or hinders LCCs and airports to pass through the legal-institutional constraints by capitalizing on the discretion authorized by the legal system. On the other hand, local flag carriers are found to be obstruction creators. Flag carriers can influence licensing bodies by objecting to the emergence of LCCs during the licensing process or direct control of airport slots in order to minimize competition. Government attitude and local carriers are expected to have a continuous influence on pre-requisite constraints, hence the influence on the development of LCC-airport business relationships. Nonetheless, if LCCs and airports can meet the pre-requisite constraints, they can consider each other a potential business partner. In order to ensure the other side is a suitable business partner, they should have a set of criteria and reasons for the selection of business partners. The following section examines why LCCs and airports want to start business relationships with each other.

4.2. *Locating a suitable business partner*

Interaction between companies is only worthwhile if both interacting parties can gain from each other (Ford et al., 1986) which means both parties' goals and objectives can be achieved with the resources (Pfeffer & Salancik, 2003) and capabilities (Ford et al., 1986) provided by the counterparts. The findings of interviews were consistent with those of previous studies. AirAsia suggested that:

“Both of us (AirAsia and airports) have the needs, without the needs, we will not pursue business We mutually attract each other.”

In the same as this quotation, AirAsia suggested that LCCs and airports want to start business relationships with each other because both need something from each other. This indicates that some goals or objectives cannot be achieved by either party individually. They need external resources and capabilities which drive them to seek each other as business partners. MFM also suggested that:

“... .. Macau and Macau Airport is a wonderland for the LCC. Why? It is because every LCC who fly to Macau can achieve their objectives, they can bring benefits to themselves. We also think that they bring benefits to us This can be called mutually attractive, not only we found them, but also they found us. If only we find them and want them to be here, but they don't think that we are attractive, they will not come.”

MFM's statement suggests that both LCCs and airports benefit from achieving their goals and objectives by interacting with each other, therefore, both of them are willing to start a business relationship with each other. In contrast, if the goals and objectives of only one party can be achieved, the business relationship cannot be started successfully as the other party does not find the business relationship attractive. CRK also suggests that understanding what resources and capabilities LCCs and airports require from each other is critical to the establishment of business relationships between them. CRK stated:

“... .. (to start up business with the LCC,) the only thing to know is what we want from them (LCC) and they want from us and we will succeed in everything (of starting up business with LCC), that’s business.”

This indicates that LCC-airport business relationships cannot be established successfully if either party fails to provide the right resources and capabilities to the counterpart. In order to provide the right resources and capabilities, LCCs and airports should know the goals and objectives of each other. The LCCs and airports within the case studies established a business relationship with each other successfully. This indicates that their resources and capabilities carry a certain type of ability to achieve the goals and objectives of their business partner. Therefore, they have a desire to establish a business relationship with each other. However, the LCCs and airports in different cases show a different level of desire in establishing a business relationship with their potential business partners. The following sections first examine the differences between their desirability to establish the new business relationships and the discussion for these reasons are followed.

4.2.1. Observations of the desirability of LCCs and airports to establish a business relationship

Table 4.1: Comparison of the desirability to establish a business relationship between LCCs and Airports

LCCs' desire to establish business relationship with airports	Strong	<p>Case: Cebu Pacific-HKG Desire: Strong / Weak</p> <p>Cebu Pacific “For Hong Kong, it is chosen because it is the <u>primary destination</u> for Filipinos. So, when we started flying international, Hong Kong was the first (international) destination.”</p> <p>HKG “Of course we welcome them (Cebu Pacific), we are happy with <u>whoever flies to us.</u>”</p>	<p>Case: AirAsia-MFM Desire: Strong / Strong</p> <p>AirAsia “... .. if we did not enter this market (Macau), other airlines would do so it would be a <u>loss</u> to us.”</p> <p>MFM “... .. our team was very aggressive. We <u>did not want to lose them (AirAsia)</u> once we found them.”</p>
	Weak	<p>Case: Cebu Pacific-BKK Desire: Weak / Weak</p> <p>Cebu Pacific “For Bangkok, it was back in February 2006. Our commercial department identified the routes. At that time, we were doing our regional expansion, and we compiled <u>a list of airports</u> that we intended to fly to... .. we chose our destinations within the range of our aircraft.”</p> <p>BKK “... .. every airline is the same to us, we do not specify (specially prefer) <u>any</u> particular airline”</p>	<p>Case: AirAsia-CRK Desire: Weak / Strong</p> <p>AirAsia “We originally wanted to operate into Manila Airport but due to lack of traffic rights, we had to look at an <u>alternative</u> airport, in this case Clark, as it is the next nearest airport to Manila.”</p> <p>CRK “... ..you can hardly consider it's <u>an airport of importance</u> if you don't <u>have an airline like AirAsia</u> which is the largest LCC in Asia.”</p>

Weak

Airport desire in establishing a business relationship with LCCs

Strong

From the interviews, LCCs and airports show a different level of desire in establishing a business relationship with the business partner. As shown in Table 4.1, both AirAsia and MFM show a strong desire to establish a business relationship with each other. In contrast, both Cebu Pacific and BKK have a weak desire to establish a business relationship with each other. AirAsia shows a weak desire in establishing a business relationship with CRK while CRK has a strong desire to establish the business relationship. On the other hand, the case of Cebu Pacific-HKG demonstrated the situation that the LCC has a strong desire to establish a business relationship with the airport while the airport has a weak desire to do the same.

Both LCC and Airport with a strong desire: AirAsia-MFM

AirAsia is considered as having a strong desire in establishing a business relationship with MFM as AirAsia implied that MFM is the one they particularly want. AirAsia considered it a loss should they not establish a business relationship with MFM and did not want this business opportunity to be taken by other airlines. Meanwhile, MFM also showed a strong desire towards AirAsia. MFM had stated explicitly that they were aggressive and did not want to lose AirAsia after it had been discovered.

LCC with a weak desire Versus Airport with a strong desire: AirAsia-CRK

In comparison to the case of AirAsia-MFM, AirAsia shows a rather weak desire in establishing a business relationship with CRK. In the interview, AirAsia implied that CRK is not its first priority, but that CRK is an alternative to MNL. AirAsia finally chose CRK because the airline did not have corresponding traffic rights to fly to MNL, making CRK the nearest alternative airport to MNL. In contrast, CRK shows a strong desire in establishing a business relationship with AirAsia during the

interview. CRK clearly stated that it particularly wants to establish a business relationship with AirAsia. CRK believed that its status in the aviation industry can be improved by having AirAsia fly into CRK because AirAsia is the biggest LCC in Southeast Asia.

LCC with strong a desire Versus Airport with a weak desire: Cebu Pacific-HKG

The case of Cebu Pacific-HKG demonstrated the opposite situation to AirAsia-CRK, in that the LCC has a strong desire while the airport shows a weak desire in establishing a business relationship. Cebu Pacific explicitly stated that HKG is its primary destination and is the most wanted destination when starting its international operation. In contrast, HKG stated in the interview that it welcomes whoever flies into them. This indicates that HKG does not have any particular desire towards Cebu Pacific.

Both the LCC and Airport with a weak desire: Cebu Pacific-BKK

The case of Cebu Pacific-BKK presented a situation in that both the LCC and airport have a weak desire in establishing a business relationship with each other. In comparison to the case of Cebu Pacific-HKG, Cebu Pacific did not classify BKK as its primary destination. Instead, Cebu Pacific described BKK as an airport out of a list of airports within its regional expansion plan. Cebu Pacific compiled the list of airports according to the flying range of its fleet. In other words, Cebu Pacific does not have a particular desire to fly to BKK. BKK showed a similar attitude to HKG in the interview. BKK clearly stated that they have no preference to any particular airline. This implies that BKK does not have any particular desire towards Cebu

Pacific. Both their attitudes suggest that they have a rather weak desire towards each other.

The above discussion suggests that LCCs and airports show a strong desire in establishing a business relationship when the business partner is the one required. In contrast, they show a weak desire in establishing a business relationship when the business partner is only an option. The following section discusses why the business partner would be particularly required or only an option, hence the different level of desire.

4.2.2. Factors leading to a different level of desirability

The interviews suggested that LCCs and airports want to establish a business relationship with each other because their goals and objectives can be achieved by the resources and capabilities of each other. Therefore, their goals and objectives as well as resources and capabilities, are speculated as the most possible starting point in explaining their different level of desire to establish a business relationship. This section starts with the discussion of new concepts of resource and capabilities of airports, which are found to be different from traditional concepts found within the industrial market. This is followed by an in-depth analysis of goals and objectives as well as resources and capabilities of LCCs and airports

4.2.2.1. New concepts of resources and capabilities of airports

The literature review suggests that capability within the industrial market refers to what an organization can do for its counterpart or what function the organization can carry out for its counterpart (Ford et al., 1986) and is the ability of one organization

to provide the counterpart with functional expertise and network connections as well as financial, technological and physical resources (Johnsen & Ford, 2001). Within the industrial market, suppliers have their particular functions which can provide services and produce products for buyers in exchange for financial resources. The buyers are willing to develop a business relationship with particular suppliers because the suppliers can perform particular functions that are needed by the buyers. If this point of view is transferred to the LCC-airport relationships, then the airport facilities and services, such as quick turnaround time (Gillen & Lall, 2004), quick check-in (Barrett, 2004), single storey airport terminal (Barrett, 2004; Francis et al., 2004), good catering and shopping facilities (Barrett, 2004), which can be provided to LCCs in order to produce LCC flight services, should be the resources and capabilities to LCCs by the airport. However, the case study findings suggest that LCCs basically do not seek these resources and capabilities, instead, LCCs are found to be mainly attracted to the market that the airport can offer. As Cebu Pacific claimed in the interview:

“... .. if it is an airport with no market, it is in the middle of nowhere maybe it offers us to land there free, pay nothing for parking, but there is no passenger available, we won't fly there.”

The market refers to the potential demand of inbound and outbound flights between the base airport of LCCs and the destination airports. LCCs cannot capture potential demand if there is no destination airport as a platform for them to provide flight services. In other words, potential demand can be captured only if LCCs fly to the destination airports. This means that the destination airports do not only provide

airport facilities and services, but also provide LCCs with accessibility to the potential market. Therefore, this research classifies accessibility to the potential demand of the route fly between the base airport of LCCs and the destination airports, as one of the resources controlled by the destination airports. This concept differs from the traditional point of view on resources and capabilities within the industrial market. This is because destination airports are different to suppliers within the industrial market who do not normally control the buyers' accessibility to the potential demand of the product.

Table 4.2 Comparison of goals and objectives and resources and capabilities between the LCC and airport

LCC's desire to establish a business relationship with Airport	Strong	Case: Cebu Pacific-HKG (Strong-Weak desire)		Case: AirAsia-MFM (Strong-Strong desire)	
		Cebu Pacific's goals and objectives <ul style="list-style-type: none"> ■ Profit maximization - by mining the market of OFW and outbound tourism destinations - by maximizing aircraft utilization 	HKG's resources and capabilities <ul style="list-style-type: none"> ■ Attractive and mature immediate market: OFW + the most popular outbound destination to Filipinos 	AirAsia's goals and objectives <ul style="list-style-type: none"> ■ Profit maximization - by mining the untapped low cost travel market in China and ASEAN countries 	MFM's resources and capabilities <ul style="list-style-type: none"> ■ Upcoming immediate market ■ Accessible to the vicinity markets ■ Possible to extend the network to a larger market
	HKG's goals and objectives <ul style="list-style-type: none"> ■ To strengthen the status as an international aviation hub and gateway hub of China ■ To maintain the competitiveness by providing more choices of products, services and airfares 	Cebu Pacific's resources and capabilities <ul style="list-style-type: none"> ■ Slightly increase the supply of air transport services and traffic volume at HKG 	MFM's goals and objectives <ul style="list-style-type: none"> ■ To improve airport business, tourism development and local economy: by diversifying and increasing inbound air travel market ■ To promote airport notability and future business development 	AirAsia's resources and capabilities <ul style="list-style-type: none"> ■ High potential of increasing supply of air transport services with multi-hub and ambitious growth ■ High potential of stimulating the traffic volume at MFM 	
	Weak	Case: Cebu Pacific-BKK (Weak-Weak desire)		Case: AirAsia-CRK (Weak-Strong desire)	
Cebu Pacific's goals and objectives <ul style="list-style-type: none"> ■ Profit maximization - Market mining – OFW + outbound tourism destinations - Maximizing aircraft utilization 		BKK's resources and capabilities <ul style="list-style-type: none"> ■ Geographical location – within the flying range of Cebu Pacific's aircraft ■ Fair immediate market: one of the outbound destinations to Filipinos 	AirAsia's goals and objectives <ul style="list-style-type: none"> ■ Profit maximization - Market mining: untapped low cost travel market in China and ASEAN countries 	CRK resources and capabilities <ul style="list-style-type: none"> ■ Accessible to the vicinity markets 	
		BKK's goals and objectives <ul style="list-style-type: none"> ■ To strengthen the status as an international aviation hub ■ To increase passenger throughput ■ To promote tourism development 	Cebu Pacific's resources and capabilities <ul style="list-style-type: none"> ■ Slightly increase the supply of air transport services and traffic volume at BKK 	CRK's goals and objectives <ul style="list-style-type: none"> ■ To improve local economy and tourism development ■ To develop itself into a premier international airport ■ To improve people's mobility 	AirAsia's resources and capabilities <ul style="list-style-type: none"> ■ High potential of increasing supply of air transport services with multi-hub and ambitious growth ■ High potential of stimulating the traffic volume at CRK
		Weak	Airport desire in establishing a business relationship with LCCs	Strong	

Table 4.2 compares the goals and objectives of LCCs to the resources and capabilities of airports, and vice versa. A summary of their goals and objectives as well as resources and capabilities are outlined below.

As shown in Table 4.2, the case study findings suggest that the main priority goal and objective of LCCs is to maximize profit. This can be achieved in two ways, market mining and maximizing the utilization of aircraft. Market mining can be achieved by serving the existing market and exploring new markets. In order to achieve the highest priority goal and objective of profit maximization, the potential market provided by the destination airport are suggested as the most important resource to LCCs in the interviews. This finding coincides with the research result of Warnock-Smith and Potter (2005).

BKK and HKG, as level 3 airports (IATA, 2006a), suggested that their main priority goals and objectives are to strengthen their status as an international aviation hub while maintaining competitiveness, increasing passenger throughput and promoting tourism development and local economy. On the other hand, the level 1 and 2 airports (IATA, 2006a), being CRK and MFM respectively, suggested that their main priority goal is to promote local economy by tourism development. Also, increasing airport income and improving mobility of people as well as future business development, were mentioned as additional goals. The level 3 airports have different goals and objectives from level 1 and 2 airports. Nonetheless, all goals and objectives can be achieved by increasing the passenger throughput. Therefore, the ability of the LCC to increase the supply of air transport services and traffic volume are actually the main resources and capabilities that airports look to them for.

The above is a summary of goals and objective as well as resources and objectives of both LCCs and airports. In order to examine why LCCs and airports showed a different level of desire in establishing a business relationship with their business partner in different cases, the following section compares the details of each case.

4.2.2.2. Comparison of goals and objectives to resources and capabilities

Goals and objectives of AirAsia Versus resources and capabilities of MFM and CRK

High priority goals and objectives of AirAsia

Profit maximization

AirAsia suggested in the interview that profit is their first consideration. As a privately owned airline, it is not surprising that its choices of destination airports are profit-driven. When asked about their goals and objectives, AirAsia stated clearly, immediately and firmly in the interview that:

“The goal, of course, is profit.”

AirAsia’s instant response to this question and the word ‘*of course*’ suggested that profit is the top priority goal of AirAsia. Market is one of the major elements to influence the profitability of LCCs. Therefore, the aims of AirAsia are toward market mining and explained its strategy in the interview as:

“... ... to tap the hugely untapped low cost travel market”

In AirAsia's Prospectus (2004), it states their goals are to mine the unexplored low cost travel market in the routes to China and ASEAN countries which are new or under-served by existing airlines:

“The Group (AirAsia Group) focuses on routes that are under-served or not served by other airlines. The Group intends to launch flights to new destinations within Malaysia, Thailand, Indonesia and other countries in Southeast Asia and China... ..” (AirAsia, 2004).

AirAsia targeted China and the ASEAN because it believes that there is an untapped and potential low cost business opportunity there. AirAsia suggested in the interview that:

“This(LCC) is a very new concept to the China market”

“... .. China is still developing, the consumption will increase continuously we also want to build up our position in China. China is a growing country, it is the most popular country in attracting investment from all over the world. ”

It also stated in its Prospectus that:

... .. the optimism for rapid growth in Southeast Asian aviation is a result of China's continued economic expansion and the liberalization of travel policies for its citizens. In particular, Chinese government aviation

officials have recently indicated an interest in building a more liberal air service framework between China and ASEAN countries. (AirAsia, 2004)

AirAsia anticipated that the economy of China would expand continuously and be the most popular place for investment. The prosperous economy and foreign investment would create the demand for travelling to and from China. In addition, the outbound tourism policy of Mainland China has been gradually relaxed since the economic reform and open policy of the late 1970s. The application policy of the individual passport was simplified in 2003 which made outbound travel much easier than before. AirAsia believes that the prosperous economy, foreign investment and relaxation of outbound tourism policy can create a huge potential low cost travel market in China. Also, the intention of the Chinese government to liberalize the ASAs with ASEAN countries represents a huge business opportunity to airlines within the ASEAN. AirAsia believes that China will become the most important upcoming market in the near future. If AirAsia can manage to enter the market of Mainland China, there would definitely be a positive impact on its future business development as well as its Initial Public Offering (IPO) performance in the exchange market of Kuala Lumpur in 2004. Therefore, AirAsia emphasized its eagerness to enter the market of Mainland China in its Prospectus (AirAsia, 2004).

The ASEAN is another target market of AirAsia. The ASEAN agreed to create a single borderless ASEAN by 2020 which was later accelerated to 2015 (Sabater, 2009). Under the borderless policy, people, goods, services and money can flow freely between the ASEAN. This policy makes travel easier between ASEAN countries and is expected to create more demand on travel for the region. In order to

prepare for the era of a borderless ASEAN, AirAsia aims to strengthen its network within the ASEAN which also provides access to an approximate population of 560 million (“Borderless Asean”, 2007).

The above discussion suggests that profit maximization is the main priority of AirAsia. Its decision to fly to an airport depends on whether potential or untapped demand in low cost travel exists. It has targeted two markets according to their potential demand of low cost travel. Therefore, the desire of Air Asia to fly to a destination airport, very much depends on the ability of that airport in helping obtain the potential market.

Resources and capabilities of MFM: High ability to achieve the high priority goals and objectives of AirAsia

Upcoming immediate market

AirAsia stated that it flies to MFM because of the attractive immediate market it offers. Immediate market refers to the market, both inbound and outbound, found in the administrative region of a city where the airport is located. For example, the immediate market of MFM is the territory administrated under the Macau SAR Government. AirAsia directly pointed out during the interview that AirAsia considered flying to MFM because Macau is becoming the Las Vegas of the East. AirAsia forecasts that demand for inbound and outbound travel would increase along with the liberalization of the gambling industry in Macau. AirAsia stated in the interview:

“With liberalization of the gambling industry Macau would be turned into the Las Vegas in the East. Because of this, we (AirAsia) started to think of including MFM into our network.”

“We (AirAsia) saw the market demand. It was because there was new hope in the economic development of Macau in 2004 there was market need. The economy in Macau would be booming. There would be more and more casinos opened in Macau, by intuition, we knew that (the economy of) Macau would be developing Macau residents would travel aboard too. If economy is bad, nobody wants to travel the economy would be booming in Macau.”

In 2002, the Macau government ended the monopoly status of Sociedade de Turismo e Diversões de Macau and granted six casino operating concessions in total. With the liberalization of the casino industry, AirAsia expected more tourists would travel to Macau. As a result, the economy of Macau was also expected to prosper. Along with the booming economy, AirAsia anticipated the demand of outbound travel of Macau would increase too. According to these inferences, AirAsia believed that the liberalization of the gaming industry would be a business opportunity. In May 2004, Sands opened the first Las Vegas style casino in Macau. Immediately after the opening of Sands, AirAsia operated the inauguration flight between MFM and Bangkok on 5 July, 2004.

Accessible to vicinity markets

AirAsia is not only looking at immediate markets, but vicinity market also. The vicinity market is defined as the market, both inbound and outbound, being found in the surrounding cities of the immediate market. AirAsia mentioned that it also targeted the market of the Pearl River Delta Region (PRDR) which is next to Macau. They stated in the interview:

“... .. we targeted the market of Pearl River Delta because Macau is neaby. We also saw the percentage of the population in Pearl River Delta who travel aboard is very high. This is because Pearl River Delta is a very rich region. We targeted this market. We also saw that the people of Southeast Asian Countries love to go to China very much, to the Pearl River Delta Region. We also wanted to sell Macau as a stopover point before they enter China and Hong Kong. People from Southeast Asian Countries love to go to Hong Kong too. The ferry service between Hong Kong and Macau is round the clock, the pier and Portas do Cerco (immigration to Zhuhai) are very convenient to tourists We were not only targeting Macau, but the whole area of Pearl River Delta.”

AirAsia conducted a study tour to Macau in 2003 and it realized that there is a huge market in the PRDR which includes Macau, Shenzhen, Zhuhai, Guangzhou and Hong Kong. It also realized that the transportation linkage between Macau and other cities in the PRDR are very convenient. The ferry service between Macau and Hong Kong is round the clock while the voyage time is around one hour. Zhuhai is actually attached to Macau where it is separated by a border gate.

There are also ferry services between Macau city centre and Shenzhen city centre as well as Shenzhen Airport. In total, there are seven daily ferry services while voyage time is between one hour and one hour 20 minutes. The bus service between Macau and Guangzhou is provided from 7:15 am to 9:30pm daily. It takes around two hours to two hours 30 minutes to travel between Macau and Guangzhou. With this transportation linkage, AirAsia believed that it is possible to include the vicinity market of these nearby cities as MFM's catchment area.

Possible to extend the network to a larger market

One of the major goals and objectives of AirAsia is to explore the untapped low cost travel market of Mainland China. However, AirAsia also indicated that LCC is a new airline model to most airports of Mainland China which may not give them confidence. As a result, no airport in Mainland China showed interest in AirAsia's initiatives. AirAsia mentioned in the interview that:

“... .. at that time, if we, AirAsia, went into China, nobody (no airport) was willing to talk (negotiate on airport cost and other support) to us. At that time, I tried, I went to China. My task was to extend our network into China. I went to many airports in China; no airport was willing to talk to us”

Therefore AirAsia needed an airport which was willing to be a pioneer. AirAsia suggested in the interview that:

“MFM can be described as a testing point. If the operation to MFM is successful, Macau is part of China, then we can tell the other airports in China about our operation model, they will know MFM is successful, the other parts of China can be successful too, because all of them are the places of the Chinese. You know, because our model was rather new.”

AirAsia believed that Macau, as one of the cities in China, can be a persuasive case to other airports in Mainland China if its operation into MFM is successful. Then AirAsia can prove to other airports in Mainland China that LCC is a workable airline model in Southeast Asia as well as China. Therefore, AirAsia was attracted to MFM when MFM took the initiative to approach AirAsia. It saw the opportunity to extend its network into Mainland China along with its pioneer operation in MFM.

The upcoming immediate market of MFM, accessible to the vicinity markets in the PRDR and the possibility of extending the network to the lucrative market of Mainland China, are expected to have a significant positive effect on AirAsia's profit. In other words, the resources and capabilities of MFM carry a strong ability to achieve the main priority goals and objectives of AirAsia.

Resources and capabilities of CRK: Low ability to achieve high priority goals and objectives of AirAsia

Accessible to the vicinity markets

AirAsia stated that

“... .. we were largely interested in commencing scheduled operations to the Philippines as we believed there was a huge untapped low cost passenger market in the Philippines we originally wanted to operate into Manila Airport but due to lack of traffic rights, we had to look at an alternative airport, in this case, Clark as it is the next nearest airport to Manila.”

CRK also said that:

“... .. they chose Clark. One is of course we are the airport that is accessible to Manila.”

AirAsia believes that there is a huge unexplored low cost travel market in the Philippines, particularly in the area of Metro Manila, or known as the National Capital Region (NCP), because of the huge population base. According to the National Statistics Office of the Philippines (2008), the population of the Philippines in 2000 was 76.5 million and 88.6 million in 2007, while the population of the NCP in the same period was 9.9 million and 11.6 million respectively. With the average annual growth rate of 2.04% (National Statistics Office of the Philippines, 2008), the

population of the Philippines and Metro Manila was approximately 82.9 million and 10.3 million respectively in 2004 at the time when AirAsia and CRK first made contact with each other. AirAsia was attracted to the Philippines because of the huge potential market, particularly the Metro Manila area. In order to commence scheduled operations to the Philippines, MNL, as the Philippines capital gateway, was the most appropriate airport to start with. However, owing to the lack of traffic rights, AirAsia mentioned in the interview that it had to look for an alternative airport with access to Manila. In 2004, AirAsia conducted a study tour to Clark and realized that it takes one and a half to two hours by road to travel between Metro Manila and Clark which is the nearest alternative airport to MNL. AirAsia decided to fly to CRK instead.

This discussion demonstrates that AirAsia is also willing to fly to CRK which has transport facilities and linkage to the sizeable vicinity market, even if the immediate airport market is not large enough to encourage the LCC to fly into. The potential contribution of CRK to the profit of AirAsia is considered lower than that of MFM because the immediate market in CRK is thin. Although there is a sizeable vicinity market in Metro Manila, AirAsia needs to compete with airlines such as Malaysia Airlines, who operate direct flights between KUL and MNL. Without an attractive immediate market, the resources and capabilities of CRK are considered as having a low ability in achieving the main priority goals and objectives of AirAsia.

Goals and objectives of MFM and CRK Versus resources and capabilities of AirAsia

High priority goals and objectives of MFM

Improving airport business, tourism development and local economy by diversifying and increasing inbound air travel market

As shown in the following quotations, MFM and a former executive of MFM indicate that there was an urgent need to diversify and increase the inbound air travel market. MFM claimed in the interview that:

“This is because of the unique factor of our airport. Our airport depends on the Taiwan market heavily, it’s almost 50 - 60%, and it was more than 70% at the beginning when there was connecting traffic from Taiwan. The economy of Macau, as a whole, cannot benefit from the connecting traffic; the connecting passengers leave Macau right away. MIA believes that sooner or later there would be direct flights between Mainland China and Taiwan as happens nowadays, so we have to prepare. We started the preparation in 2004. This is a very important factor that drives us to look for the LCC.”

“To our airport, the Taiwan market was 50 - 60% of our airport business in 2002, 2003, direct flights between Mainland China and Taiwan is a severe challenge to us. If we don’t well prepare to change ourselves from a connecting airport to a destination airport, just a simple calculation, we will lose around 50% of our business this worries us the most”

“... .. air travelers will not leave Macau on the same day. In the past, many travelers left Macau on the same day and did not stay overnight. Air passengers can bring economic benefits to Macau”

“We (MFM) considered their (LCCs) ability to bring more passengers and increase the traffic to our airport. Our aeronautical income will increase too we also want to achieve a high utilization of our capacity.”

A former executive of MFM mentioned in the interview that:

“Before 2004, there were not many airlines flying to MFM, the major route was MFM/Taiwan.”

“... .. after the liberalization of the gambling industry, the Macau government knew that the tourism industry cannot only rely on tourists from Hong Kong, China or Taiwan, they need (tourists from) different markets to support the development of the gambling industry.”

MFM is a Level 2 airport (IATA, 2006a) which means that it is underutilized. Also, the MFM website claims that MFM is not a congested airport but has ample capacity for future business expansion (Macau International Airport Company Ltd., 2004a). MFM claimed in the interview that the airport had to be subsidized by the Macau Government before 2003, which indicated that passenger volume at that time was not enough to support the daily operation cost of the airport. MFM has a unique situation in that its major business is that of connecting flights between Mainland

China and Taiwan. Direct flights between the straits became the biggest worry to MFM and they believed it would happen sooner or later. In addition, transit passengers bring very limited economic benefit to Macau as they only wait for their connecting flights at the airport without any spending in the city. Therefore MFM had an urgent need to diversify its business by having more direct flights from other countries. Increasing numbers of direct flights to MFM also mean a rise in passenger throughput, which would eventually increase their utilization and revenue. Therefore, they were eager to attract new airlines which could increase direct flights and passenger volume.

Also, the inbound tourism market of Macau had long been dominated by tourists from Mainland China, Taiwan and Hong Kong.

Table 4.3: Proportion of Inbound tourists from Hong Kong, Mainland China and Taiwan to the total number of inbound tourists of Macau (Statistics and Census Service of Macao, 2000-2004)

Tourists Country of Origin	2000	2001	2002	2003	2004	Average
Hong Kong	54.1%	50.6%	44.2%	38.9%	30.3%	43.6%
Mainland China	24.8%	29.2%	36.8%	48.3%	57.1%	39.3%
Taiwan	14.3%	14.1%	13.3%	8.6%	7.8%	11.6%
Total	93.2%	93.9%	94.3%	95.8%	95.2%	94.5%
Other	6.8%	6.1%	5.7%	4.2%	4.8%	5.5%
Sub-total	100%	100%	100%	100%	100%	100%

As shown in Table 4.3, inbound tourists from Mainland China, Taiwan and Hong Kong represented approximately 95% of the total number of inbound tourists to Macau from the year 2000 to 2004 (Statistics and Census Service of Macao, 2000-2004). MFM suggested in the interview that most of these tourists are day-trippers who only bring limited economic benefit to Macau. MFM believes that air travellers definitely carry a higher economic benefit as they stay longer than day-trippers. Moreover, the Macau SAR Government announced liberalization of the gaming

industry in 2002, so there would be many more casinos operating in Macau. As the former executive of MFM suggested, the enlarged casino market can no longer only be supported by tourists from Mainland China, Taiwan and Hong Kong. As a result, there was an urgent need to expand and diversify the inbound air travel market.

The over-dominance of the airport business by connecting flights between the Straits and imbalanced inbound tourism market can only bring very limited benefits to MFM and the Macau economy as a whole. In order to improve the airport business, local economy and tourism industry, MFM needs to attract airlines which are able to diversify and increase airport networks and sources of inbound tourists to Macau, hence the local economy of Macau can benefit from tourism development. Therefore, diversification and increases to the inbound air travel market is the main priority in order to improve the airport business, tourism industry and local economy.

MFM's other goals and objectives

To promote airport notability and future business development

MFM indicates that improving their notability and business development is one of their goals. MFM suggested in the interview that:

“... .. we considered the opportunity for further business development in the future, and our image development in the Southeast Asian region.”

On the other hand, a former executive of MFM also revealed that:

“When we first approached Tony Fernandes (CEO of AirAsia), he didn’t even know where Macau was, he thought there was only Hong Kong.”

The interviews showed that the notability of MFM between airlines was low. MFM falls next to HKG which is a famous world-class airport, and has an overlapping catchment area to HKG. As a result, the major airport, HKG, enjoys a comparative advantage in terms of notability and is the preference to most airlines. With such a low notability, it was not easy for MFM to attract airlines to fly into it. MFM believes that it can improve its future business development and promote its image in the region of Southeast Asia if it can improve its notability.

High priority goals and objectives of CRK

To improve local economy and tourism development

As MFM, CRK also implies that the improvement of local economy and tourism development are their main priority goals and objectives. When asked about goals and objectives, CRK responded instantly in that:

“... .. the important thing is we want to generate a lot of economical benefit, not only for the airport, the airport is only the driver of the economy, especially the regional economy, tourism, hotel, restaurants, stores, occupations, drivers, helpers, employees, you see, it’s multiplier effect it’s really economic thinking, we will be able to get a bus

company into Clark, also a fast food company ... Without the mass, they won't go to Clark. Passenger airlines provide the mass."

Clark was once the biggest offshore military base of the United States. CRK suggested that local economy and employment relied heavily on the US military in the past which created 20,000 employment opportunities for local people. However, the US military evacuated in 1991 after a major volcanic eruption of Mount Pinatubo. CRK claimed that the numbers of employment dropped dramatically and the economy collapsed for a period of time. In 1992, the Philippines Government established The Bases Conversion and Development Authority (BCDA). The mission of the BCDA is to transform the US military base into a civil aviation airport, which later became CRK, and to promote economic and social development of Central Luzon by creating opportunities for investment and employment (Bases Conversion and development Authority, 2008). CRK views itself as a driver in promoting tourism development; hence job opportunities and local economic activities can be generated. Therefore, the most important goal and objective of CRK is to stimulate the local economy by attracting more airlines and providing a mass of tourists.

To develop the airport into a premier international airport

CRK stated in the interview that:

"... ... (CRK was) being not known, everybody still knows Manila Airport (MNL) only, all the flights were landed in Manila Airport (MNL) one (of our goals) of course is to grow the airport to a high density airport,

and make CRK eventually develop into a premier international airport”

After local economy and tourism development, CRK immediately mentioned that another goal and objective must be to develop itself into a premier international airport by firstly improving its notability. Clark is not one of the famous cities of the world. CRK mentioned that it had experienced a long tough period of time by positioning itself under the competition by Manila-Ninoy Aquino International Airport (MNL). All airlines knew and flew to MNL only. On the other hand, CRK considers its geographical location as being near to the Manila Metro. Therefore, it has a strong ambition to replace MNL and becomes the premier gateway airport of the Philippines when MNL reached its full capacity and cannot expand any further. CRK believes that the improvement to its notability in attracting more airlines is the very first and most important step in achieving its goal as the premier gateway airport of the Philippines.

Other goals and objectives of CRK

To improve the mobility of people

In addition, the improvement to mobility of people has also been mentioned as one of their goals. CRK claimed that it carries a social responsibility in that it wants to be an airport for the Philippine people. CRK said in the interview that:

“... .. we (the Philippines) are a poor country, many people cannot afford air travel it (our goal) has to be social responsibility we

promote ourselves as an airport for the masses (people) I told you the population cannot afford to travel, the worker units (OFWs) probably can only afford to fly, to come back to the country to see their family once a year, sometimes it's once every 3 years from a social viewpoint, we feel that we are the saving manager. Why? Because the worker unit, either the husband or the wife, could reunite with the family more often, more than just once a year or three years (with the low airfare offered by LCCs)."

CRK suggested in the interview that the Philippines is a poor country and many Filipinos cannot afford to fly abroad. Overseas Filipino Workers (OFWs) are probably the largest population mass to use air transport services constantly. CRK suggested that over 40% of OFWs are within its catchment area. In the past, MNL was the only airport to provide international flight services to most Philippine people and OFWs. However, there were only legacy carriers operating at MNL and the airfares were too expensive to most Philippine people and OFWs. CRK considers itself as an airport to serve the population and to help the OFWs reunite with their families more often. CRK believes that flying would become affordable to the population and returning home would become easier to OFWs by having LCCs operate there. Therefore, one concern of CRK is to attract LCCs and increase mobility of the people with low fares.

Resources and capabilities of AirAsia: High ability to achieve main priority goals and objectives of MFM and CRK

High potential to increase the supply of air transport services with multi-hub and ambitious growth

As discussed, MFM had an urgent need to look for a new airline business partner in order to diversify the inbound tourism market dominated by Taiwanese and Mainland Chinese tourists. In 2002, when MFM first found AirAsia, it had one single hub at KUL only. In 2004 when MFM started to negotiate with AirAsia, AirAsia had already established two hubs in Malaysia, KUL and JHB and a subsidiary in Thailand, with a hub at BKK. MFM expected that AirAsia would develop more hubs in the near future. The increasing number of AirAsia hubs represents its growing ability to bring passengers from different Southeast Asian cities to Macau and diversify inbound tourism of Macau. As MFM said:

“If they (AirAsia) have more and more destinations (hubs of AirAsia), then our network can be expanded too.”

CRK also said in the interview that:

“... ..the coming of AirAsia brings the Malaysian Tourist for the first time to the region”

The statement made by CRK suggests that AirAsia had operated a new route and connected Clark to Malaysia. This helps MFM and CRK develop their airport network, benefit tourism development in Macau and Clark, as well as improve the

mobility of people in the Philippines. The benefit is obvious to MFM and CRK, particularly when there are only a limited number of airlines operating. In addition to the multi-hubs of AirAsia, MFM and CRK are attracted by AirAsia's ambition to grow. MFM said in the interview that:

“At that time, their (AirAsia's) headquarter was in Malaysia, then they had a subsidiary in Thailand very soon. We could see that they worked very hard in looking for new destinations.”

The rapid establishment of a subsidiary showed AirAsia's eagerness to grow. MFM commented that AirAsia *“has ambition to grow”* while CRK also described AirAsia as *“very aggressive”*. MFM suggested that the eagerness of AirAsia to extend its network to new destinations helped to *“drive the negotiation (between AirAsia and MFM) to achieve a successful outcome”*, which meant that MFM foresaw the possibility of establishing a business relationship with AirAsia was high. This anticipation encouraged MFM to contact and start negotiations with AirAsia.

MFM claimed in the interview that:

“We also saw that their business model was easy to grow, we can see their future, they have good management, their equipment, service commitment and have ambition to grow” while CRK also said *“Remember AirAsia's vast airport, I was looking on the in-flight magazine, tremendous, as a matter of fact, I think their (AirAsia's) flights to Clark would be increased gradually, they are very aggressive”*.

The rapid development of AirAsia in Malaysia and Thailand gave MFM and CRK the impression that AirAsia would-be able to grow quickly in terms of numbers of hubs, route and flight frequencies. This anticipation created the picture of a promising future to MFM and CRK. Therefore, they are not only attracted to AirAsia by its existing resources and capabilities to increase the supply of air transport services at their airports, but also its contribution to their future development.

High potential of stimulating the traffic volume

MFM said in the interview that:

“The LCC provides a different segment of passengers and substantial increases to the travel frequency and numbers ... We considered their (AirAsia’s) ability to bring more passengers and increase the traffic at our airport.”

CRK claimed in the interview that:

“... we thought the one to provide the mass, the critical mass, will be the low cost carriers, AirAsia.”

“... we estimated the traffic they (AirAsia) will bring us ... Tony Fernandes told me that when they started AirAsia, only 3% of the population (of Malaysia) was able to fly ... that 3% grew up to 7% later ... I saw it myself, oh my goodness, my country (Philippines) is 80

million population I asked how much you are going to charge to fly to KUL, it is around USD100, which is about PHP5,000, whereas by regular carrier, it's PHP18,000 or PHP19,000, a huge difference, isn't it? Lots of people will be able to afford this."

According to these interviews, MFM and CRK believe that AirAsia is able to stimulate traffic volume at their airports which would benefit the development of the tourism industry and local economy in Macau and Clark. In addition, CRK strongly believes that the low fare strategy of AirAsia, as well as other LCCs, can make travel abroad become affordable to more Filipinos, which can help to improve their mobility.

The priority goal and objective of MFM is to improve the local economy and tourism industry by diversifying and increasing their inbound air travel market. MFM has other goals and objectives which are to promote its notability and future business development. As MFM, the priority goal and objective of CRK is to improve the local economy and tourism industry. CRK also aims to develop itself into a premier international airport and improve people's mobility. All of these goals and objectives can be well achieved by airlines that are able to increase the supply of air transport services and the passenger throughput of airports. AirAsia has multi-hubs and is ambitious to grow. This has equipped AirAsia with a high potential ability to increase the supply of air transport services at MFM and CRK in terms of numbers of routes and frequencies. At the same time, MFM and CRK also believe that AirAsia can stimulate the traffic volume. Therefore it can be concluded that the resources

and capabilities of AirAsia carry a high ability in achieving to the main priority goals and resources of MFM and CRK.

Goals and objectives of Cebu Pacific Versus resources and capabilities of HKG and BKK

High priority goals and objectives of Cebu Pacific

Profit maximization

The same as AirAsia, Cebu Pacific stated profit maximization to be its top priority goal and objective. Cebu Pacific mentioned profitability of routes immediately when the topic of goals and objectives were discussed. Cebu Pacific said in the interview that:

“... .. we look at the route profitability if the route is unprofitable, we stop flying it The value of the route is really about its profitability If the route makes money, we will fly it.”

Cebu Pacific explained that if there became an unprofitable route, it would stop flying it. Cebu Pacific evaluates the value of a route or a business relationship with a destination airport in terms of profitability. In other words, if the route does not seem to be profitable or is proven to be unprofitable, Cebu Pacific will not start, or will terminate, the business relationship with that destination airport. Market is an important element in determining profit. Cebu Pacific stated in the interview that:

“Probably the driver for us (to choose a destination airport) is does the market exist, does the Filipino market exist, do Filipinos want to travel to the destination is there an expatriate Filipino population?if

there is a natural market, that means there are expatriate Filipinos in this destination. Because this makes lots of difference, this minimizes the risk.”

Table 4.4: Proportion of OFWs to the total population of the Philippines (Philippine Overseas Employment Administration, n.d.)

Year	1998	1999	2000	2001	2002	2003	2004	2005
OFWs	831,643	837,020	841,628	867,599	891,908	867,969	933,588	988,615
Populations	7,350,390	7,520,920	7,650,000	7,830,540	8,015,340	8,204,504	8,398,130	8,596,326
Proportion	11.3%	11.1%	11.0%	11.1%	11.1%	10.6%	11.1%	11.5%

Cebu Pacific mentioned that the major market to Cebu Pacific includes Overseas Filipino workers (OFWs) and outbound Filipino tourists. Table 4.4 shows that OFWs have constituted more than 10% of the population within the Philippines since 1998 and are scattered around the World (Philippine Overseas Employment Administration, n.d.). Cebu Pacific suggested that the existence of OFWs within a destination forms a natural market because they have to travel back to the Philippines between contracts. Also, some of them may travel back home during holidays or their families and relatives may travel to the places they work. This all forms a substantial potential market for the airlines. Cebu Pacific suggested that its risk would be much lower if there is a OFWs population within the destination. Therefore, Cebu Pacific naturally chooses to fly to the destinations holding an OFW market. If the destinations are coincidentally popular among outbound Filipino tourists, then Cebu Pacific classifies them as its primary destinations.

Other goals and objectives of Cebu Pacific

To maximize aircraft utilization

Cebu Pacific also mentioned that it aims to maximize the utilization of its fleet in order to minimize its unit cost and also to generate extra income. Therefore, Cebu Pacific has round the clock schedules for its fleet. Cebu Pacific claimed in the interview that:

“We use the aircraft to operate those services when the aircraft would normally not be used we have a large domestic operation during the daytime, but many airports in the Philippines do not have light at night. So, we have to stop flying the aircraft when the sun goes down. We have the option to park them or we can fly them at night and make them back to Manila ready to do the next days’ work. We make the aircraft fly round the clock; the LCC model is about high aircraft utilization It is pretty much how we start our international operations.”

“The only difference between flying and parking is the variable cost. So, when we look at a route like Bangkok, it backs up the round the clock operation, we look at the marginal cost”

Cebu Pacific indicated that it flies many domestic routes during the daytime. Most of these domestic routes cannot be operated at night because most of the airports in the Philippines are out of light. This situation left Cebu Pacific two choices. It can either lay the aircraft idle and park them in the Philippines, or fill the schedule of the

aircraft and make them fly fill-in flights at night to nearby countries in order to fully utilize the aircraft and generate additional income. The strategy of flying fill-in flights at night does not only minimize the unit cost, but also improves the profitability of the airlines. This is because the overhead cost is not influenced by operating fill-in flights while more available seat kilometres (ASKs) can be created. The unit cost to Cebu Pacific can eventually be lowered. Cebu Pacific also suggested that the only difference between flying the fill-in operations and parking the aircraft is the variable cost. Therefore, Cebu Pacific stated that it is willing to fly the fill-in flights if the market can provide sufficient demand to cover the variable cost. By flying the fill-in flights, Cebu Pacific also gains the chance to generate additional income which would not be expected if the aircraft is parked in the base airports at night. In order to maximize the utilization of its aircraft, hence a lower unit cost and extra income, Cebu Pacific aims to look at international destination airports to give them the opportunity to operate fill-in flights.

Resources and capabilities of HKG: High ability to achieve main priority goals and objectives of Cebu Pacific

Attractive and mature immediate market

Cebu Pacific suggested that the immediate market of HKG is attractive which makes them a primary destination. This is because HKG is inhibited by substantial numbers of OFWs and also a popular outbound destination of Filipinos. As claimed in the interview by Cebu Pacific:

“For Hong Kong, it is the primary destination of our market Hong Kong probably is the case whereby it is the first overseas destination for most Filipinos. Is there an expatriate Filipino population? Yes, there is.”

Hong Kong has been the second largest destination for OFWs since 1998 (Philippine Overseas Employment Administration, 2003) and also the most popular outbound destination of Filipinos since 1996 (Department of Tourism, 2007). Cebu Pacific suggested in the interview that the population of OFWs in Hong Kong reduces the risk of operating the flight to HKG significantly. The popularity of Hong Kong for Filipino outbound tourists makes its operation to HKG to be a potentially lucrative route. Because of the potential profitability, Cebu Pacific labelled Hong Kong as its primary destination and decided to fly to HKG as its first destination when making the decision to fly international.

Resources and capabilities of BKK: Low ability to achieve high priority goals and objectives of Cebu Pacific

Geographic location and fair immediate market

Cebu Pacific indicated that BKK is part of its regional expansion plan and is one of the airports suitable for Cebu Pacific to operate fill-in flights. Cebu Pacific said in the interview:

“For Bangkok, it was back in February 2006At that time, we were doing our regional expansion, and we compiled a list of airports that we

intended to fly to For (choosing) Bangkok, because we chose our destinations within the range of our aircraft”

The geographical location of BKK is within the flying range of Cebu Pacific aircraft, while the income of fill-in flights to BKK can cover the marginal cost which fits the purpose of maximizing the utilization of aircraft. The plan is to fly the aircraft from MNL to BKK at night and fly back to MNL in the early morning for the domestic operation of the next day. The criteria for choosing fill-in destinations is the flying range and the market, which is able to make the operation cash positive after the direct operating cost is deducted. According to the Department of Tourism (2007) of the Philippines, Bangkok has been ranked as the fourth most popular Filipino outbound destination since 2000. Cebu Pacific believes that BKK is one of the possible fill-in flight destinations. Cebu Pacific suggested that if the fill-in route is cash positive after direct operating costs, it is willing to fly rather than park the aircraft. However, Cebu Pacific also implied that a primary destination is more attractive than a fill-in destination in terms of profitability. Therefore BKK carries a lower ability than HKG in achieving the high priority goals and objectives of Cebu Pacific.

Goals and objectives of HKG and BKK Versus resources and capabilities of Cebu Pacific

High priority goals and objectives of HKG

To strengthen the status as an international aviation hub and gateway hub of China

With China's growing economic influence and Hong Kong's increasing integration with the Mainland, the Airport Authority envisions Hong

Kong International Airport as one of the most important gateway hubs of China in 2025 (Airport Authority Hong Kong, 2005, pp. 10).

HKG:

“... .. we are doing very well in hub traffic there are many choices of long haul flights at HKG.”

HKG anticipated that the economic growth of China will continue to be strong which will create a strong demand on inbound and outbound travel of China. The master plan of HKG is already set to become the most important gateway hub of China as its primary goals. As stated in the interview and the master plan HKIA 2025, HKG has been doing well in hub traffic which represented a third of the total passenger throughput of HKG (Airport Authority Hong Kong, 2005, pp. 8). These substantial numbers of transit passengers encourages airlines to operate more flights to HKG. This further helps HKG to enhance its role as an international aviation hub (Airport Authority Hong Kong, 2005, pp. 8). As suggested in the master plan HKIA 2025, HKG has to further strengthen its status as an international aviation hub in order to offer an international network which serves as the most important gateway hub of China and connects Mainland China to the World (Airport Authority Hong Kong, 2005, pp. 8). On the other hand, HKG is also eager to develop its network to Mainland China in order to bring transit passengers from Mainland China to HKG.

To maintain the competitiveness by providing more choice of products, services and airfares

It was mentioned in the interview that one of the airport goals and objectives is to maintain the competitiveness of HKG. HKG claimed that this goal can be achieved by extending the airport network, and maintaining a wide variety of airline choices to passengers and freight forwarders. HKG stated in the interview that:

“Our thought is that if we want to maintain our competitiveness, we have to expand our air network continuously The big airports always have competitive advantages, particular in PRD. If you are a customer, of course you will come to HKG because we provide more choices than CAN, SZX even if we have competitive advantage over the other airports in the region, we shall not stop, we must continue to expand our network, continue to attract more airlines to our airport, then we can maintain our competitive advantage.”

“Our strategy is to provide passengers and freight forwarders more choice of products, services and price. The more the choices, the better the market will be. Only competition can improve the market, with competition, prices will drop. If the airfare drops, then more passengers will come.”



Figure 4.4: Comparison of international destinations and frequencies between HKIA and Mainland airport 2000 and 2005 (Airport Authority Hong Kong, 2005, pp. 16)



Figure 4.5: Comparison of international destinations and frequencies between HKIA and regional airport 2000 and 2005 (Airport Authority Hong Kong, 2005, pp. 17)

Figure 4.4 and Figure 4.5 provide an insight into the competitiveness of HKIA.

Figure 4.4 compares the number of international destinations and frequencies between HKG, Shanghai Pudong International Airport (PVG), Beijing Capital International Airport (PEK), Guangzhou Baiyun International Airport (CAN), Shenzhen International Airport (SZX) and MFM in 2000 and 2005. SHA and PEK are the two most important airports in China having connections with international cities. CAN, SZX and MFM are major airports of the PRDR. Zhuhai Airport (ZUH)

is also one of the major airports of the PRDR but is not included in this figure. This is because ZUH is not an international airport. As shown in Figure 4.4, HKG has the highest number of international destinations and highest frequency of all other major airports in Mainland China since 2000. In 2005, HKG continued to maintain the competitiveness.

Figure 4.5 compares the number of international destinations and frequency between HKG, Singapore-Changi Airport (SIN), BKK, Seoul-Incheon International Airport (ICN), Seoul-Gimpo International Airport (SEL), Tokyo-Narita International Airport (NRT), Taiwan Taoyuan International Airport (TPE) and Kuala Lumpur International Airport (KUL) in 2000 and 2005. In 2000, HKG ranked third in terms of number of international destinations which fell behind SIN and BKK, but it had the second highest frequency behind SIN and slightly higher than BKK. In 2005, HKG increased both international destinations and frequency. HKG was behind SIN and ranked second in terms of both dimensions.

Figure 4.4 shows that SHA had made great progress in terms of number of international destinations and flight frequencies since 2000 while PEK, CAN and MFM also made some improvements. Figure 4.5 shows that SIN had maintained the strongest competitiveness in terms of number of international destinations and frequency while HKG and BKK were closer to each other. Although HKG has been the fifth busiest international passenger airport in the world since its first day of operation (Airport Authority Hong Kong, 2009a), Figure 4.4 and Figure 4.5 show that HKG does not have an absolute advantage. At the same time, it is facing

challenges from SIN and other upcoming airports as shown in Figure 4.4 and Figure 4.5.

Due to the competition of other upcoming airports and SIN, one of the goals and objective of HKG is to expand its network continuously by having more airlines operating into them. A wide variety of choices of airline services is believed to be able to increase the competitiveness of an airport. HKG suggested that a wide variety of choices in terms of destinations and airlines can promote competition between airlines. Hence the airport network can be expanded while airfares would decrease which can attract more passengers to HKG, particularly passengers from nearby cities of the PRDR.

High priority goals and objectives of BKK

To strengthen the status as an international aviation hub

Unlike MFM and CRK, BKK is a famous world-class airport. Therefore BKK does not have to increase their notability as did MFM and CRK. The same as HKG, BKK aims to strengthen its status as an international aviation hub. As BKK suggested in the interview and the website:

“You know Thailand, if you see (look at) the map, the geographic (the geographical location of BKK) is quite good for air traffic, it is a hub, it’s in the centre of everywhere, we can connect flights to many destinations in one or two hours.”

“... .. to achieve the ambition of setting Thailand as an aviation hub in Southeast Asia.” (Airports of Thailand Public Company Limited (AOT), 2006)

BKK claimed that Thailand is in the centre of the World where it can connect to most destinations within two hours flight time. BKK believes its geographical location creates a favourable condition for developing itself into a hub. The goal for strengthening itself as an international aviation hub is particularly important to Thailand as a member country of the ASEAN, as a single borderless ASEAN is planned by 2015 (Sabater, 2009) and agreed between member countries. Under the borderless ASEAN, people, goods, services and money can flow freely between ASEAN countries. In addition, The hub-and-spoke model has long been used by traditional airlines all over the world. Traditional airlines flying long haul flights from the United States, Europe or Australia need a regional hub in Asia for conglomerating and dispersing traffic. Therefore, the hub airport in ASEAN would naturally become the conglomerate and dispersion place for passengers and cargo between the ASEAN countries and other countries all over the World. This is of substantial economic benefit to a hub airport, as well as to the country. Therefore, BKK aims to develop itself into an aviation hub within Southeast Asia.

To increase passenger throughput and airport income

BKK mentioned that another goal is to increase passenger throughput and airport income. BKK indicated in the interview that it does not receive government subsidies; instead, the airport has to finance its own daily operation. Therefore,

increasing passenger throughput and airport income becomes one of its most important goals and objectives.

“... .. we think that every new airline which comes to Bangkok new airport would bring us more passengers, that means that we might have more income from passenger service charges and parking and landing fees So, the first thing we notice is if new airlines can carry more passengers this pays more passenger fees.”

BKK also suggested that the ability of new airlines to increase passenger throughput is the first thing it considers, implying that this is an important goal and objective to BKK. This is because passenger throughput directly affects BKK's aeronautical income which includes landing, parking and passenger fees.

Other goals and objectives of BKK

To promote tourism development

BKK suggested in the interview that one of its goals and objective is to promote tourism development. BKK stated that:

“... .. the whole scenario for the country, we can bring more tourists to Thailand, but we are just one part of the Thai government agency to bring more customers to Thailand.”

The situation of BKK is slightly different from that of MFM and CRK. Although BKK also suggested that tourism development is one of its goals and objectives, it does not seem to have the same pressure as MFM and CRK. The tourism industry is one source of income for Thailand which accounted for approximately 6% of their GDP (National Statistical Office of Thailand, 2008). As a major hub in Thailand, BKK provides a platform for airlines to bring tourists into the country. The number of airlines flying into BKK, flight frequency and passenger throughput can affect the volume of tourist arrivals to Thailand. However, BKK describes itself as just one of the government agencies to promote tourism development in Thailand. It appears that BKK does not see itself as having the major responsibility for promoting the tourism industry in Thailand. This may be because the Tourism Authority of Thailand plays the main role in promoting their tourism industry. In addition, there are other international airports in Thailand such as Chiang Mai International Airport (CNX), Hat Yai International Airport (HDY), Phuket International Airport (HKT) and Chiang Rai International Airport (CEI) to share the responsibility of promoting tourism development. As a result, tourism development does not seem to be a high priority goal or objective of BKK.

Resources and capabilities of Cebu Pacific: Low ability to achieve high priority goals and objectives of HKG and BKK

Slightly increase the supply of air transport services and traffic volume at HKG and BKK

The high priority goals and objectives of HKG are to strengthen their status as an international aviation hub and gateway hub of China as well as to maintain its

competitiveness by providing more choices of products, services and airfares to passengers. The high priority goals and objectives of BKK are to strengthen its status as an international aviation hub and to increase passenger throughput as well as airport income. Both airports want to be major international aviation hubs in Southeast Asia; therefore they really need the airlines that can bring them hub traffic. However, Cebu Pacific, as an LCC, does not operate a hub-and-spoke network, nor carry any transit passenger to other airlines at HKG or BKK. It basically operates point-to-point routes only. In the sense of strengthening the status of HKG and BKK as international hubs, Cebu Pacific cannot make any contribution to them.

The ability of Cebu Pacific to help HKG maintain its competitiveness and to increase passenger throughput as well as airport income to BKK, depends on flight frequencies and traffic volume of Cebu Pacific. As BKK suggested in the interview:

“... .. we think that every new airline which comes to Bangkok new airport would bring us more passengers it (benefit of LCCs) depends how many flights they are flying”

As stated in the section on case selection in Methodology, Cebu Pacific operated 21 flights per week to HKG and 10 flights per week to BKK when it started to fly to HKG and BKK respectively. Both HKG and BKK are Level 3 airports (IATA, 2006a) which cater for more than 3,000 flights per week. Therefore, 21 flights per week and 10 flights per week are considered a small proportion to the flight services of both HKG and BKK. Therefore, the ability of Cebu Pacific to increase traffic volume is considered as very marginal for HKG and BKK with such a small scale of

operation. When the importance of Cebu Pacific was discussed, HKG commented in the interview that:

“... .. each of them (airlines) can increase our number of destinations, and increase our supply of air transport services.”

HKG did not point out the small scale operation of Cebu Pacific as BKK did, instead, HKG suggested that all airlines would expand the network and increase supply of air transport services at that airport. The way HKG responded to this topic was different to the responses of MFM CRK. MFM and CRK directly pointed out AirAsia's contribution to them. The differences between their responses were very subtle. Instead of mentioning the small scale operation of Cebu Pacific as BKK did, HKG suggested that all airlines can make a contribution. This indicates that Cebu Pacific or any other airline does not carry any specific contribution to HKG in terms of number of destinations and supply of air transport services. In contrast to the ability of AirAsia to achieve the goals of MFM and CRK, Cebu Pacific is considered as having a low ability to achieve the goals and objectives of HKG and BKK.

4.2.2.3. A Summary of the priority of goals and objectives and ability of LCCs and airports

Table 4.5: Priority of goals and objectives of LCCs and airports Versus the ability to achieve these goals and objectives by their potential business partner

Case	LCC-Airport	Priority of Goal and objective	Potential business partners' ability
AirAsia-MFM	AirAsia	High	Strong (MFM)
	MFM	High	Strong (AirAsia)
AirAsia-CRK	AirAsia	High	Weak (CRK)
	CRK	High	Strong (AirAsia)
Cebu Pacific-HKG	Cebu Pacific	High	Strong (HKG)
	HKG	High	Weak (Cebu Pacific)
Cebu Pacific-BKK	Cebu Pacific	Low	Strong (BKK)
	BKK	High	Weak (Cebu Pacific)

Table 4.5 summarizes the discussion of case study findings and compares the priority of goals and objectives of LCCs and airports as well as their ability to achieve the goals and objectives of each other. According to the above discussion, each LCC and airport has its own goals and objectives. Some of their goals and objectives are of high priority while some are of low priority. The case study findings also reveal that not all their goals and objectives can be well achieved by their potential business partners. The resources and capabilities of LCCs and airports determine their ability in achieving goals and objectives of their counterparts. These vary from case to case.

As shown in Table 4.5, Both AirAsia and MFM have a strong ability in achieving the high priority goals and objectives of each other. The case of AirAsia-CRK demonstrates that the LCC has a strong ability to achieve the high priority goals and objectives of the airport, while the airport has a weak ability to achieve the high priority goals and objectives of the LCC. In contrast, the case of Cebu Pacific-HKG shows the situation being that the LCC has a weak ability to achieve the high priority goals and objectives of the airport, while the airport has a strong ability to achieve

the high priority goals and objectives of the LCC. In the case of Cebu Pacific-BKK, BKK has a strong ability to achieve the low priority goals and objectives of Cebu Pacific, while the ability of Cebu Pacific to achieve the high priority goals and objectives of BKK is weak.

The case study findings suggest that LCCs and airports have different goal and objective priorities, while the abilities of their potential business partners to achieve their goals and objectives vary from case to case. The next section discusses the implications of the priority of goals and objectives as well as the abilities of LCCs and airports.

4.2.2.4. Business opportunity matrix

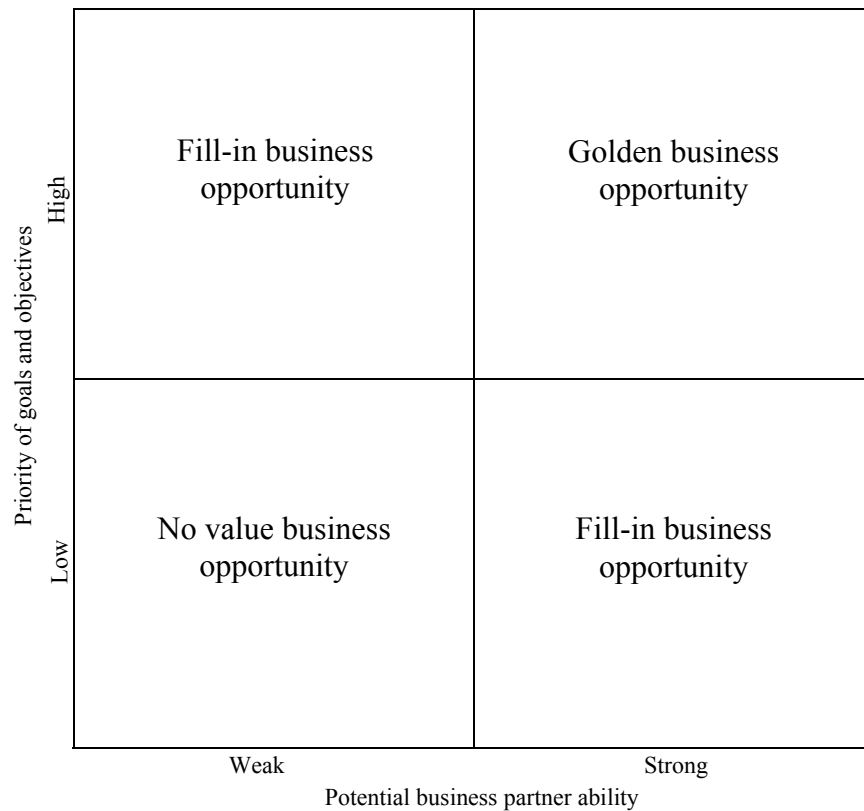


Figure 4.6: Business Opportunity Matrix

The previous sections have discussed the goals and objectives of LCCs and airports as well as their priority. It has also discussed the resources and capabilities of LCCs and airports, hence their ability to achieve the goals and objectives of their potential business partners. The case study findings suggest that the goals and objectives of LCCs and airports can range from low to high priority, while their potential business partners may be either strong or weak in achieving their high or low priority goals and objectives. As shown in the Business Opportunity Matrix in Figure 4.6, there are four scenarios that have arisen. The potential business partners have a strong ability to achieve the high priority goals and objectives of LCCs or airports; the potential business partners have a weak ability to achieve the low priority goals and objectives of LCCs or airports; the potential business partners have a weak ability to

achieve the high priority goals and objectives of LCCs or airports; or the potential business partners have a strong ability to achieve the low priority goals and objectives of LCCs or airports. Each scenario carries a different implication toward LCCs and airports which are discussed as follows.

Golden business opportunity

As shown in the Business Opportunity Matrix, when the high priority goals and objectives of LCCs or airports can be well achieved by the strong ability of their potential business partners, this scenario represents a golden business opportunity to LCCs or airports. For instance, the urgent goal and objective of MFM is to promote the tourism industry in Macau by diversifying the inbound air travel market. When MFM discovered that AirAsia has multi-hubs which means AirAsia can bring tourists from Southeast Asia to Macau and significantly increase the traffic volume to MFM, the chance of establishing a business relationship with AirAsia becomes a golden business opportunity to MFM. This is because AirAsia has the ability to well achieve the high priority goals and objectives which means a significant benefit to MFM.

Fill-in business opportunity

Figure 4.6 shows two scenarios classified as fill-in business opportunities which is explained as follows. Fill-in business opportunity happens in one circumstance when potential business partners only have a weak ability in achieving the high priority goals and objectives of LCCs or airports. For instance, one of the high priority goals and objectives of BKK is to increase passenger throughput and airport income. However, Cebu Pacific can only slightly increase the traffic volume with its

small scale operation within BKK. In other words, Cebu Pacific has a weak ability to achieve the high priority goals and objectives of BKK. This means that Cebu Pacific is considered bringing little benefit to BKK. Therefore, the chance of establishing a business relationship with Cebu Pacific represents a fill-in business opportunity to BKK.

Fill-in business opportunity also happens in another circumstance when the potential business partners have a strong ability to achieve the low priority goals and objectives of LCCs or airports. For instance, one of the goals and objectives of Cebu Pacific is to maximize the utilization of its fleet which is considered as a low priority goal and objective. The geographical location and the immediate market of BKK fit the criteria of Cebu Pacific very well when choosing destinations for its fill-in flights at night. In other words, BKK has a strong ability to achieve the low priority goal and objective of Cebu Pacific. However, low priority goals and objectives create little benefit to Cebu Pacific even if they are well achieved. Therefore, the chance of establishing a business relationship with BKK means a fill-in business opportunity to Cebu Pacific.

No value business opportunity

No value business opportunity is resulted when potential business partners have a weak ability in achieving the low priority goals and objectives of LCCs or airports. As discussed, low priority goals and objectives imply little benefit to LCCs or airports even if they are well achieved. When the low priority goals and objectives are not well achieved, the potential benefit is trifle or none. As suggested by MFMM in the interview:

“... .. every LCC flying to Macau can achieve their objectives, they can bring benefits to themselves. We also think that they bring benefits to us This can be called mutually attractive... ..”

LCCs and airports want to establish business relationships because they can help each other achieve goals and objectives, hence they can gain from each other. In other words, the business opportunity carries no value if it cannot create any benefit to LCCs or airports.

Dynamic business opportunity

The business opportunity matrix can be applied to evaluate the potential business relationships at pre-relationship stage. Based on the ability of LCCs and airports to achieve the goals and objectives of each other, the chance to establish the potential business relationships is classified as golden, fill-in and no value business opportunity. However, the classification of business opportunity is not static; instead, the business opportunity is dynamic and may shift from one classification to another if the priority of goals and objectives or the ability of potential business partners changes. A no value business opportunity can become a fill-in or golden business opportunity if the goals and objectives of LCCs or airports shift from low to high priority or if the ability of potential business partners is strengthened. For instance, if the utilization of aircraft becomes critical to the profitability of Cebu Pacific because of the poor performance of its primary routes, then this goal and objective would shift from low to high priority. Provided that the strong ability of BKK in achieving the goal and objective of Cebu Pacific remains unchanged, the chance of establishing a business relationship with BKK would become a golden business

opportunity to Cebu Pacific. In contrast, a golden business opportunity would become a fill-in or no value business opportunity if the goals and objectives shift from high to low priority or if the ability of the potential business partner is weakened. For instance, if MFM changes its business planning and wants to increase inbound tourists from Mainland China, then the goals and objectives of diversifying the inbound air travel market to Southeast Asia would lose priority. In this case, AirAsia would have a very low or even no ability in achieving the new goals and objectives of MFM. As a result, the chance of establishing a business relationship with AirAsia becomes a no value business opportunity to MFM.

4.2.2.5. Applying Business Opportunity Matrix

Table 4.6: Classification of business opportunity of case studies

Case	LCC-Airport	Priority of Goal and objective	Potential ability of business partner	Type of business opportunity
AirAsia-MFM	AirAsia	High	Strong (MFM)	Golden
	MFM	High	Strong (AirAsia)	Golden
AirAsia-CRK	AirAsia	High	Weak (CRK)	Fill-in
	CRK	High	Strong (AirAsia)	Golden
Cebu Pacific-HKG	Cebu Pacific	High	Strong (HKG)	Golden
	HKG	High	Weak (Cebu Pacific)	Fill-in
Cebu Pacific-BKK	Cebu Pacific	Low	Strong (BKK)	Fill-in
	BKK	High	Weak (Cebu Pacific)	Fill-in

The business opportunity matrix is illustrated according to the priority of goals and objectives of LCCs and airports and the ability of their potential business partner in achieving these goals and objectives. With the help of the business opportunity matrix, the chances of establishing a business relationship with potential LCC and airport partners are classified into different types of business opportunity and are shown in Table 4.6. MFM and AirAsia represent a golden business opportunity to each other as both have a strong ability in achieving the high priority goals and objectives of each other. CRK represents a fill-in business opportunity to AirAsia

because CRK has a weak ability in achieving the high priority goals and objectives of AirAsia. In contrast, AirAsia is a golden business opportunity to CRK due to the strong ability of AirAsia to achieve the high priority goals and objectives of CRK. In the case of Cebu Pacific-HKG, HKG means a golden business opportunity to Cebu Pacific because of the strong ability of HKG to achieve the high priority goals and objectives of Cebu Pacific. On the other hand, Cebu Pacific is a fill-in opportunity to HKG due to its weak ability in achieving the high priority goals and objectives of HKG. BKK and Cebu Pacific represent fill-in business opportunities to each other because both of them have weak abilities in achieving the high priority goals and objectives of each other.

An interesting phenomenon is found and highlighted in Table 4.6. The chance to establish a business relationship with LCCs represents a fill-in business opportunity to both HKG and BKK while LCCs represent a golden business opportunity to both MFM and CRK. Coincidentally, both HKG and BKK are level 3 airports (IATA, 2006a). On the other hand, MFM is a level 2 airport (IATA, 2006a) while CRK is a level 1 airport (IATA, 2006a). The major difference between them is utilization of capacity. Level 3 airports are almost saturated airports while level 2 and level 1 airports are under-utilized airports with ample surplus of capacity (IATA, 2006a). This difference suggests that utilization of capacity may be an explanation to this phenomenon.

4.2.2.6. Utilization of airport capacity

The level 3 airports are nearly saturated (IATA, 2006a). With so many airlines in operation, each individual airline can only represent a very small proportion to the

total operation of the level 3 airport, particularly when LCCs only operate a minor volume of flights as found in the cases of Cebu Pacific-BKK and Cebu Pacific-HKG. With so many airlines in operation, the achievements of goals and objectives to level 3 airports are not affected by one or two airlines. Instead, the achievement is an aggregate result of the collective ability of a number of airlines. Moreover, level 3 airports normally aim to strengthen their status as an international hub which is again an aggregate result of the collective ability of hub-and-spoke airlines. Therefore, with such little flight volume and point-to-point service only, the ability of LCCs in achieving the goals and objectives of the level 3 airport is normally very limited. As a result, LCCs can only represent a fill-in business opportunity to level 3 airports.

On the other hand, level 1 and 2 airports are under-utilized (IATA, 2006a). With so little airlines in operation, each additional airline can make a significant difference to the business of under-utilized airports, hence their local economy and tourism development can benefit. However, both MFM and CRK mentioned that not many airlines are willing to fly into them, so LCCs represent new hope to them. As a result, LCCs would normally represent a golden business opportunity to under-utilized airports.

The above discusses the classification of business opportunities in each case study and the influence of utilization of airports on the classification of business opportunities, the following section discusses the implication of different types of business opportunities to LCCs and airports.

4.2.2.7. Business opportunity and desirability

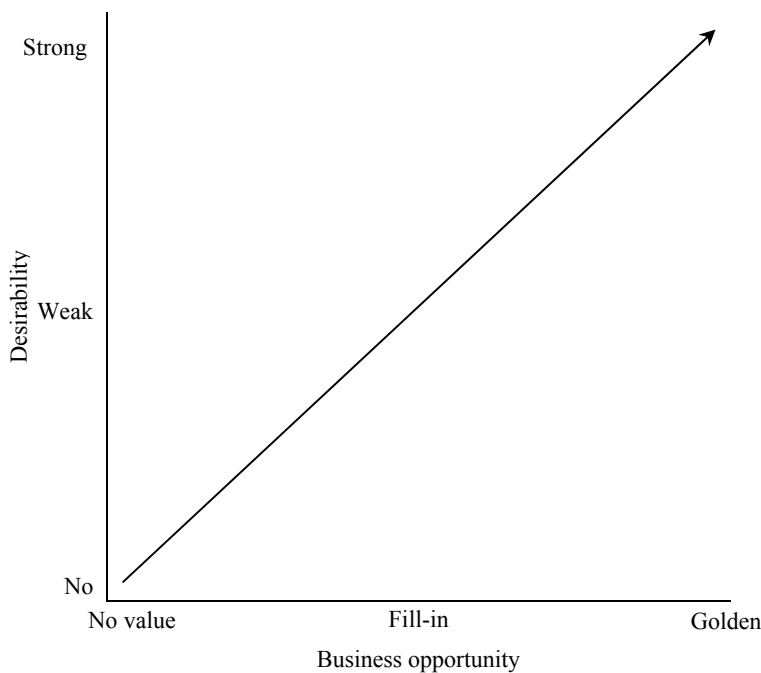


Figure 4.7: Relationship between business opportunity and desirability

As discussed in the Business Opportunity Matrix, different types of business opportunities represent a different level of benefit which results from different combinations of priority of goals and objectives and the ability of the potential business partners. The no value, fill-in and golden business opportunities imply a different level of potential benefit to LCCs and airports, therefore LCCs and airports have a different level of desire in establishing a business relationship with different potential business partners.

The no value business opportunity carries little or even no benefit to LCCs or airports because potential business partners have a low ability to achieve the low priority goals and objective of LCCs or airports. Therefore the LCCs and airports have no desire to establish the potential business relationship.

The fill-in business opportunity results when potential business partners can only well achieve the low priority goals and objectives of LCCs or airports or when potential business partners can only partly achieve the high priority goals and objectives of LCCs or airports. These two scenarios represent little benefit to LCCs or airports; hence LCCs and airports have a weak desire in establishing this kind of business relationship.

The golden business opportunity represents significant potential benefit to LCCs or airports because their potential business partners can well achieve their high priority goals and objectives. Therefore, LCCs or airports have a strong desire in establishing a business relationship with these potential business partners.

The three types of business opportunity lead LCCs and airports to have a different level of desire in establishing a business relationship with each other. LCCs and airports have no desire to establish a business relationship with potential business partners in the situation of no value business opportunity. In the scenario of fill-in business opportunity, LCCs and airports have a weak desire to establish a business relationship with potential business partners. The golden business opportunity drives LCCs and airports to have a strong desire to establish a business relationship with potential business partners. The following section discusses the desire of LCCs and airports to establish a business relationship in each case.

4.2.2.8. Configurations of inter-desirability

Table 4.7: Configurations of inter-desirability to establish a new business relationship

Business opportunity to LCC	Golden	Configuration I Strong desire-No desire	Configuration II Strong desire-Weak desire Case: Cebu Pacific-HKG	Configuration III Strong desire-Strong desire Case: AirAsia-MFM
	Fill-in	Configuration IV Weak desire-No desire	Configuration V Weak desire-Weak desire Case: Cebu Pacific / BKK	Configuration VI Weak desire-Strong desire Case: AirAsia-CRK
	No value	Configuration VII No desire-No desire	Configuration VIII No desire-Weak desire	Configuration IX No desire-Strong desire
		No value	Fill-in	Golden
		Business opportunity to airport		

Table 4.7 illustrates various configurations of inter-desirability between LCCs and airports under different types of business opportunities. Previous sections have discussed the different level of desire to establish a business relationship that would result from various types of business opportunities. The establishment of a business relationship is not a one-sided affair; instead, both LCCs and airports play a major role in determining whether the business relationship could be established successfully. Therefore, the desirability of both LCCs and airports should be considered simultaneously. By comparing the desirability in establishing a business relationship between the LCCs and airports in Table 4.7, nine configurations have resulted.

Configuration I: Strong desire-No desire

Configuration I indicates that the LCC has a strong desire in establishing a business relationship with the airport while the airport has no desire to establish the business relationship. This happens when the chance of establishing the business relationship

with the airport is a golden business opportunity to the LCC but a no value business opportunity to the airport.

Configuration II: Strong desire-Weak desire

This configuration occurs when the chance of establishing the business relationship with the airport is a golden business opportunity to the LCC but a fill-in business relationship to the airport. As a result, the LCC has a strong desire in establishing a business relationship with the airport while the airport only has a weak desire to establish the business relationship.

Configuration III: Strong desire-Strong desire

When the chance to establish a business relationship means a golden business opportunity to both LCC and airport, configuration III is the result, meaning both the LCC and airport have a strong desire to establish the business relationship with each other.

Configuration IV: Weak desire-No desire

Configuration IV means that the LCC has a weak desire to establish a business relationship with the airport while the airport has no desire to establish the business relationship. This configuration occurs when the opportunity to establish a business relationship with the airport is a fill-in business opportunity to the LCC while it is a no value business opportunity to the airport.

Configuration V: Weak desire-Weak desire

Configuration V represents the scenario that both LCC and airport has a weak desire to establish a business relationship with each other. This occurs when the chance of establishing a business relationship is a fill-in business opportunity to both parties.

Configuration VI: Weak desire-Strong desire

Configuration VI indicates that the LCC has a weak desire to establish a business relationship with the airport. In contrast, the airport has a strong desire to establish the business relationship. This configuration results when the opportunity of establishing a business relationship with the airport represents a fill-in business opportunity to the LCC, but a golden business opportunity to the airport.

Configuration VII: No desire-No desire

Configuration VII means that both LCC and airport have no desire to establish a business relationship with each other. This happens when the chance of establishing the business relationship is a no value business opportunity to both parties.

Configuration VIII: No desire-Weak desire

This configuration represents the situation when the LCC has no desire to establish a business relationship with the airport while the airport has a weak desire to establish the business relationship. This occurs because the chance to establish a business relationship with the airport is a no value business opportunity to the LCC while it is a fill-in business opportunity to the airport.

Configuration IX: No desire-Strong desire

Configuration IX means that the LCC has no desire to establish a business relationship with the airport but the airport has a strong desire to establish the business relationship. This occurs when the chance to establish a business relationship with the airport is a no value business opportunity to the LCC but it is a golden business opportunity to the airport.

Applying the configurations of desirability to the case studies

According to the discussion regarding goals and objectives of LCCs and airports as well as their resources and capabilities, the business opportunity matrix and configurations of desirability, Cebu Pacific-HKG, AirAsia-MFM, Cebu Pacific-BKK and AirAsia-CRK case studies are found to fall into configurations II, III, V and VI respectively as shown in Table 4.7. In the case of Cebu Pacific-HKG, Cebu Pacific is found to have a strong desire to establish the business relationship with HKG but HKG has a weak desire to establish the business relationship. The case of AirAsia-MFM shows that both LCC and airport have a strong desire to establish the business relationship with each other. In the case of Cebu Pacific-BKK, both of them have a weak desire to establish the business relationship with each other. In the case of AirAsia-CRK, AirAsia is found to have a weak desire to establish a business relationship with CRK while CRK is found to have a strong desire to establish the business relationship. This result tallies with observations reported in Table 4.1 (p. 178).

In configurations I, IV, VII, VIII and IX, neither LCCs nor airports have the desire to establish the business relationship. Under this situation, there is no business relationship established. As suggested by MFM in the interview:

“... .. Macau and Macau Airport is a wonderland for the LCC. Why? It is because every LCC flying to Macau can achieve their objectives, they can bring benefits to themselves. We also think that they bring benefits to us If only we could find them and want them to be here, but they don't think that we are attractive, they will not come.”

AirAsia mentioned in the interview that:

“Both of us (AirAsia and airports) have the needs, without the needs; we will not pursue business”

CRK suggested in the interview that:

“... .. (to start up business with the LCC,) the only thing to know is what we want from them (LCC) and they want from us and we will succeed in everything (of starting up business with LCC), that's business.”

MFM claimed that business relationships would only be established if the goals and objectives of both parties can be achieved through the business relationship. Hence, both parties can benefit from the business relationship. AirAsia suggested that business relationships would only be established if both parties have the needs and

wants from each other. CRK also claimed that both LCCs and airports have to understand what resources and capabilities they want from each other as well as what resources and capabilities they can offer. Their views suggest that a business relationship would be established if the goals and objectives of both parties can be achieved by the resources and capabilities of each other. Then the business relationship can benefit both parties. However, in configurations I, IV, VII, VIII and IX, either LCCs or airports or both of them do not carry the right resources and capabilities to achieve the goals and objectives of their counterparts. This means that the business relationship does not carry any benefit to one or both parties. Under these circumstances, the chance to establish a business relationship represents a no value business opportunity to one or both parties. As a result, either of them or both of them do not have any desire to establish the business relationship with the counterpart. If only one party has the desire, the business relationship would not be established successfully. Therefore, there is no business relationship established in configurations I, IV, VII, VIII and IX.

In addition to priority goals and objectives of LCCs and airports, as well as the ability of potential business partners, the case study findings also reveal another factor which may affect the desirability of LCCs and airports in establishing a business relationship with each other. This is discussed in the following section.

4.2.2.9. Modulating forces

Interviewees from LCCs and airports mentioned that they considered alternative business partners when they were preparing to establish a business relationship with each other. Attitudes, availability and feasibility of alternatives as well as the actions of competitors are found to possibly affect their preferences towards potential business partners.

Alternative airports

Attitude of alternative airports

The attitudes of alternative airports were mentioned in the interview as one of the factors affecting LCCs when choosing an airport. AirAsia suggested that it had considered all five major airports of the PRDR. These include Hong Kong International Airport (HKG), Shenzhen International Airport (SZX), Guangzhou Baiyun International Airport (CAN), Zhuhai Airport (ZUH) and MFM. These five airports were considered as options to AirAsia. However, the question is whether AirAsia was welcomed by these airports as by MFM. AirAsia claimed in the interview that:

“Tony (Fernandes) thought about HKG as well at that time. The marketing positioning of HKG was very clear at that time, they didn’t want LCCs. They attract FSCs only. At that same time, they didn’t have room to attract LCCs because HKG airport is very busy, the slot is very tight, all the slots can be said as golden slots. As a result, they don’t want to waste the resources for LCCs.”

We (AirAsia) have ruled out direct flights to Hong Kong because I (Mr. Tony Fernandes, CEO of AirAsia) have not seen a lot of interest from the Airport Authority (of Hong Kong), Our talks with them (HKG) never got off the ground. They took the point of view of a monopoly and were not willing to adjust. Their attitude was: 'Fly here if you want to'. They apparently don't feel the need to go out and get business. At the end of the day, Macau was just hungrier. (Barling, 2004)

In addition to MFM, AirAsia approached HKG at the same time. However, as shown in the above quotation, AirAsia clearly stated that it was not flying to HKG because of their attitude. AirAsia claimed that the marketing positioning of HKG was very clear at that time. Because of the scarce slots, LCCs did not form part of their target market. According to another interview, HKG claimed that it treated all airlines the same. The airport charges of HKG was very clear and fair to every airline which meant that there would not be any discount offered to any individual airline. This indifferent attitude and action of HKG caused AirAsia to suspect that HKG was a monopoly and was unwilling to make any concession. AirAsia interpreted the attitude and action of HKG as not being welcomed by HKG. This was in much contrast to the attitude and action of MFM. As a result, AirAsia had preferences toward MFM rather than HKG.

AirAsia also indicated that the airports in Mainland China were not interested in LCCs at that time. This was because the LCC was a new concept for Mainland China during 2003. The airlines had not yet proved to the market that the LCC was a workable airline model for Mainland China. AirAsia claimed in the interview that:

“... .. if we, AirAsia went into China, nobody (no airport) would be willing to talk to us It was because we had not yet proved our business is OK at that time.”

AirAsia anticipated that SZX and CAN had little interest in LCCs. As a result, AirAsia did not approach SZX and CAN at that time. In contrast, if HKG, SZX and CAN held the same attitude towards AirAsia as MFM, then positive feedback from the alternative airports would be expected. The attractiveness of MFM to AirAsia would be weakened because the alternative airports were also willing to work with AirAsia. This means that AirAsia has alternative ways to achieve its goals and objectives. AirAsia's choices were no longer confined to MFM only.

Availability of alternative airports

Cebu Pacific implied in the interview that availability of alternative airports is one of the factors affecting its airport choice. Cebu Pacific suggested in the interview that:

“... .. a network planner will always look for an alternative that is more flexible and more economically viable if there is an alternative, we may shift to”

In the case of choosing BKK, Cebu Pacific said in the interview:

“At that time, we were doing our regional expansion, and we compiled a list of airports that we intended to fly to when we identify our routes, of course we identify firstly the airports which offer us incentives. That is

why we first went to Singapore. It is within 3 hours range, and then KUL. Because they provided us very good incentives Then Bangkok followed.”

This indicated that BKK was only one of the potential airports in Cebu Pacific’s regional expansion plan. There were several alternative airports to implement its regional expansion plan and to fly their fill-in flights. As SIN and KUL provided more incentives and made the operation more economically viable, Cebu Pacific flew to SIN and KUL first, then BKK. As in the case of flying to HKG, Cebu Pacific believed that the most effective way of capturing both the OFWs and outbound Filipino market was to fly to HKG directly. Therefore, Cebu Pacific did not consider the other airports within the PRDR as alternatives to HKG, even though the airport charges of the other airports within the PRDR are cheaper. As a result, Cebu Pacific did not see any suitable alternatives to HKG. Under these circumstances of having no alternative airport, Cebu Pacific had no other choice than to fly into HKG.

Alternative airlines

Availability of alternative airlines

MFM indicated that the choice of airlines was very limited while both BKK and HKG mentioned the impressive number of airlines flying into them. MFM suggested that before 2003, the number of LCCs in Southeast Asia was limited. In addition to AirAsia, there were Cebu Pacific Airlines from the Philippines which started international operations in 2001 and Lion Air from Indonesia which began in the region during 2000. Moreover, a former executive of MFM also claimed that:

“before 2004, there was not many airlines flying to MFM”

This indicated that very few FSCs were available to MFM too. The business status of MFM suggested that it lacked airline business partners. Meanwhile MFM also claimed they did not have any alternative foreign LCC at that time. As a result, once AirAsia was seen to be able to fit their goals and objectives, they wanted to aggressively start a business relationship with AirAsia.

CRK claimed that Tiger Airways also approached them a few months after it started negotiation with AirAsia. However, they also claimed that it had undergone a tough period in attracting airlines since 1996. Their situation had slightly improved during 2002 after UPS established a cargo hub with them. But CRK was still only little known as a cargo hub as very few passenger airlines flew there. Even though Tiger Airways was available as an alternative LCC, CRK still had a very strong desire towards AirAsia because of its underutilization status. They urgently needed as many airlines as possible to use their facilities.

On the other hand, both BKK and HKG are level 3 airports (IATA, 2006a) with many carrier operations using their airports, which also indicated that they have many alternative airlines available to them. As a result, both airports emphasized that each and every carrier or potential airline business partner is considered the same and they do not see any individual airline as having a specific attractiveness. As a result, they are different to MFM as well as CRK and have no specific preferences towards potential individual airlines as a business partner.

Feasibility of alternative LCC

In addition to availability of alternative airlines, MFM also considers feasibility of alternative LCCs. MFM claimed that Virgin Blue was also on their airlines list. The business plan of Virgin Blue was to start the LCC joint venture with Air Macau in Macau. MFM anticipated that:

“... .. if they want to make a partnership with Air Macau, there will be lots of procedures that they have to go through, it takes a very long period of time, lots of legal and company set up procedures. We believe that the whole process will be very long, it may not come true at the end.”

MFM believed that it would be very difficult and would take a very long time for Virgin Blue to implement its business plan in Macau. Therefore it appeared that the feasibility of a business plan with Virgin Blue was low. Even if the business plan of Virgin Blue could eventually be implemented, it would take a very long time. In addition, Virgin Blue would be a Macau local airline. MFM also concerned about its ability to bring inbound tourists to Macau. MFM had already emphasized that it has urgent needs to diversify its inbound tourism market and develop MFM into a destination airport. The prolonged time needed to establish Virgin Blue at MFM would not allow MFM to fulfil its urgent needs. In contrast, AirAsia can fulfil the goals and objectives of MFM as the business plan of AirAsia is easier and more feasible to implement in Macau. This also indicated that the possibility of starting a business relationship with AirAsia is comparatively higher. The low feasibility of Virgin Blue’s business plan meant that there are actually no suitable alternative

airlines available to MFM. As a result, the preference towards AirAsia by MFM is reinforced.

MFM has a different situation regarding alternative airlines when compared to BKK and HKG. MFM is an underutilized airport and do not have any suitable alternative LCCs available, while BKK and HKG are busy airports with many existing and potential airlines available. Under the circumstances of there being no suitable LCCs available, the attractiveness of AirAsia to MFM is reinforced. In contrast, there are vast numbers of alternative airlines available to BKK and HKG of which Cebu Pacific is not particularly attractive to either. In fact, both BKK and HKG do not view any individual airline as having a particular attractiveness to them. As a result, they do not have preferences towards any particular airline. Although CRK has Tiger Airways as an alternative LCC, it still has a strong preference towards AirAsia because it urgently needed additional airlines to improve its utilization level.

Actions of competitors

Cebu Pacific suggested that the pricing behaviour of competitors is also of concern. Cebu Pacific believes that demand can be stimulated by its low fare strategy, but only if there is a considerable difference between theirs and competitors' fares. The competitors within its operation to BKK are Philippines Airlines (PR) and Thai Airways (TG) while Philippines Airlines (PR) and Cathay Pacific Airways (CX) are the competitors within its operation to HKG. Cebu Pacific believes their fares would be significantly lower than all of these competitors which gives it confidence in its ability to stimulate demand. Hence, Cebu Pacific is confident in the profitability of its operation to BKK and HKG and wants the business relationships. Because of this

consideration, Cebu Pacific suggested that if the pricing behaviour of competitors are similar to its own in offering very low airfares to the market, it may hesitate in flying to these airports. This is because the demand stimulated by low fare strategy would be limited or the profit margin of the operation would be extremely low. In this case, the desire of Cebu Pacific to fly into these airports is weakened.

4.2.2.10. Summary of desirability

The case study findings reveal that external factors such as attitudes, availability and feasibility of alternative LCCs and airports as well as the actions of competitors, would form a modulating force which may weaken or reinforce their desirability in establishing a business relationship with potential business partners. The modulating force operates within the external environment which is beyond the control of LCCs and airports.

The availability of alternative airlines forms the modulating force to influence the desire of airports to establish a business relationship with potential LCCs. The availability of alternative airports, their attitudes and airfares offered by competitor airlines, form the modulating force to influence the desire of LCCs to establish a business relationship with potential airports. The intuitive inference is that the desire of airports to establish a business relationship with potential LCCs tends to be stronger if there is no alternative airline available. In contrast, the desire of the airport tends to be milder if alternative airlines are available. On the other hand, the desire of LCCs to establish a business relationship with potential airports tends to be stronger if there is no alternative airport, or if the alternative airport holds an unwelcome attitude, or there is a significant difference between airfares. In contrast,

the desire of LCCs tends to be weaker if alternative airports are available, or if the alternative airport holds a welcome attitude, or if there is no significant difference between airfares.

However, the case study findings do not fully support the intuitive inference. Instead, they suggest that the modulating force influence is the other way around in some cases.

Table 4.8: Influence of modulating forces on desirability

Case	LCC-Airport	Desirability	Modulating forces	Modulated Desirability
AirAsia-MFM	AirAsia	Strong desire for MFM	Not welcomed by alternative airports	Tends to be stronger
	MFM	Strong desire for AirAsia	No alternative	Tends to be stronger
AirAsia-CRK	AirAsia	Weak desire for CRK	No alternative	Tends to be uninfluenced
	CRK	Strong desire for AirAsia	With alternative	Tends to be uninfluenced
Cebu Pacific-BKK	Cebu Pacific	Weak desire for BKK	With alternative	Tends to be weaker
	BKK	Weak desire for Cebu Pacific	With alternative	Tends to be weaker
Cebu Pacific-HKG	Cebu Pacific	Strong desire for HKG	<ul style="list-style-type: none"> ● No alternative ● Considerable difference of competitors' airfares 	Tends to be stronger
	HKG	Weak desire for Cebu Pacific	With alternative	Tends to be weaker

Table 4.8 summarizes the influence of modulating forces on case study desirability. AirAsia and MFM have a strong desire for each other. Under the circumstances of no alternatives, their desire for each other tends to be stronger. Cebu Pacific and BKK have a weak desire for each other. Under the circumstances of available alternatives, their desire for each other tends to be weaker. Cebu Pacific has a strong desire for HKG while HKG only has a weak desire for Cebu Pacific. In this case, Cebu Pacific has no alternative airport to HKG and is confident in capturing a good sized market with its low fares when compared to the fares of alternative airlines. As a result, the desire of Cebu Pacific towards HKG tends to be stronger. In contrast,

HKG has a wide variety of airlines in operation, so therefore has many alternatives. As a result, the desire of HKG for Cebu Pacific tends to be weaker. In the case of AirAsia-CRK, the desire of AirAsia for CRK is weak while the desire of CRK for AirAsia is strong. There is no alternative airport available for AirAsia whilst there are alternatives available for CRK. The intuitive inference is the desire of AirAsia for CRK would increase, while the desire of CRK for AirAsia would be weakened. However, the desire of AirAsia for CRK does not become stronger even if there is no alternative airport. On the other hand, the desire of CRK for AirAsia does not become weaker even if alternative airlines are available. The case of AirAsia-CRK reveals that the influence of modulating forces tends to be very limited when it tries to move the desirability status into the opposite direction. In other words, it seems that it is easier for modulating forces to make a strong desire becomes even more so rather than make it weaker; it is easier for modulating forces to make a weak desire becomes even more so rather than make it stronger. This situation may suggest that the type of business opportunity has more influence on the desirability of LCCs and airports in establishing a business relationship with each other than the modulating force.

4.2.3. Desirability of establishing LCC-airport relationships

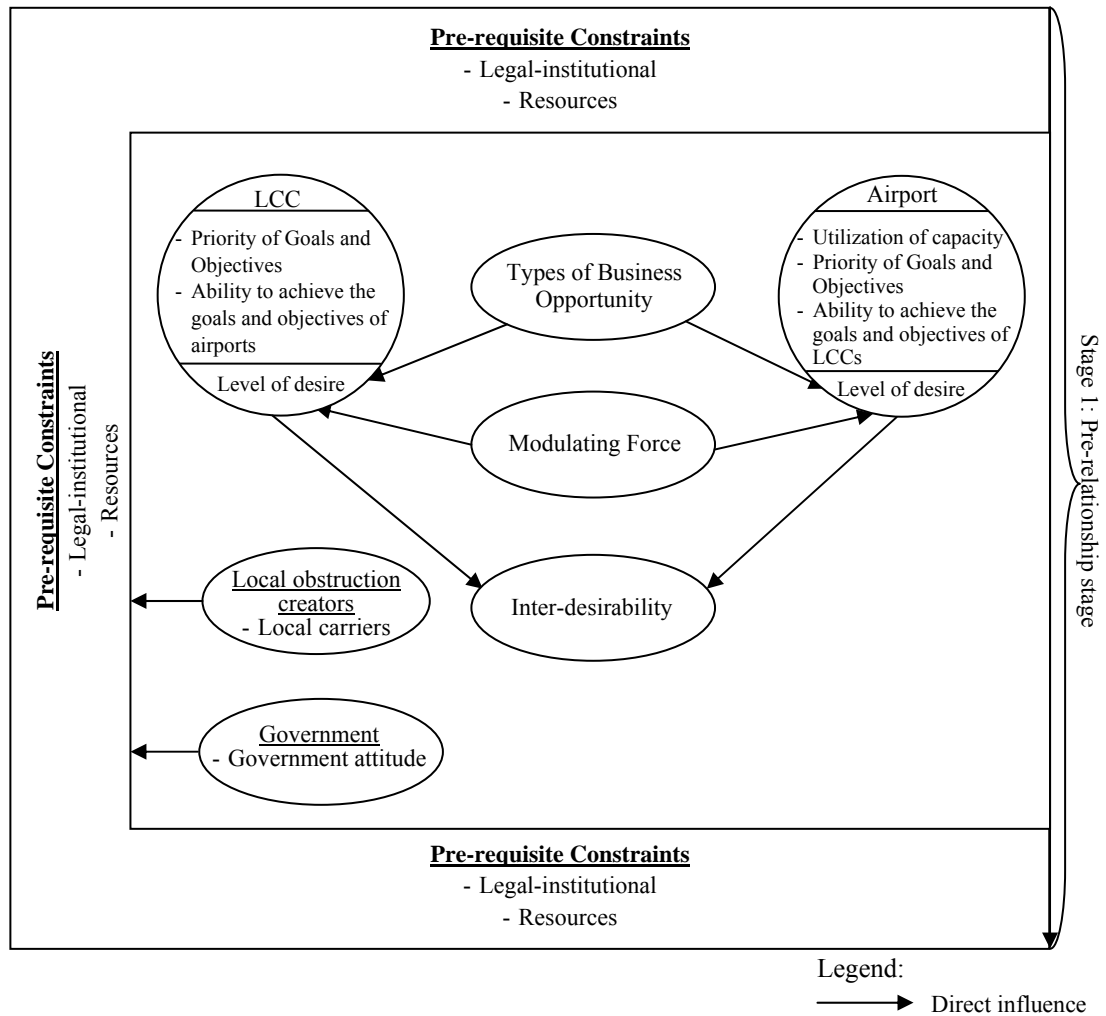


Figure 4.8: Desirability of establishing a business relationship between the LCC and Airport

Figure 4.8 illustrates why LCCs and airports have a desire to establish a business relationships with each other. LCCs and airports can only start to consider each other as a possible business partner if they comply with the pre-requisite constraints. However, it does not mean that they would have a desire to establish a business relationship with all possible business partners.

In order to search for a suitable business partner, the case studies reveal that LCCs and airports consider the priority of their own goals and objectives as well as the

ability of potential business partners to achieve the goals and objectives. The priority of the goals and objectives of LCCs and airports, together with the ability of potential business partners to achieve the goals and objectives, forms various types of business opportunities. These are golden, fill-in and no value business opportunities. The chance of establishing business relationships with potential business partners is a golden business opportunity if the potential business partners have a strong ability to achieve the high priority goals and objectives of LCCs and airports. As a result, the LCCs and airports would have a strong desire to establish a business relationship with the potential business partners. If the potential business partners have a weak ability to achieve their high priority goals and objectives or if their potential business partners have a strong ability to achieve their low priority goals and objectives, the chance is that of a fill-in business opportunity. The fill-in business opportunity causes the LCCs or airports to have a weak desire in establishing a business relationship with the potential business partners. If the potential business partners only have a weak ability to achieve their low priority goals and objectives, the chance is that of a no value business opportunity. In this case, the LCCs or airports would have no desire to establish a business relationship with each other. The case study findings suggest that the utilization of capacity has an influence on airport's classification of LCCs as various types of business opportunities. The level 3 airports (IATA, 2006a) normally view the chance of establishing a business relationship with LCCs as a fill-in business opportunity while the under-utilized airports normally see the chance as a golden business opportunity.

The start of a business relationship is not a one-sided issue. In contrast, both LCCs and airports must have the desire for each other in order to start a business

relationship. Therefore, the desirability of both LCCs and airports to establish a business relationship with each other, inter-desirability should be considered. Whenever either side have no desire to establish a business relationship, the possibility of establishing the business relationship is very marginal. Moreover, their desirability for each other as business partners is also influenced by attitude, availability and feasibility of alternative LCCs and airports, as well as the actions of competitors. These influences form a modulating force which operates within the external environment and is beyond the control of LCCs and airports.

Stage 2: Relationship establishment and growth stage

In the pre-relationship stage, LCCs and airports realise that the pre-requisite constraints limit their freedom to establish a business relationship with each other. After they can overcome all the pre-requisite constraints, they start to locate suitable business partners by comparing the priority of their goals and objectives to the ability of their potential business partners. Once they found the suitable business partners, they enter a stage of establishing and growing a business relationship. This section firstly discusses the establishment process of LCC-airport relationships and is followed by analysis of the relationship growth process. Finally, the overall interaction during their relationship establishment and growth stage is discussed.

4.3. Establishment process of LCC-airport relationships

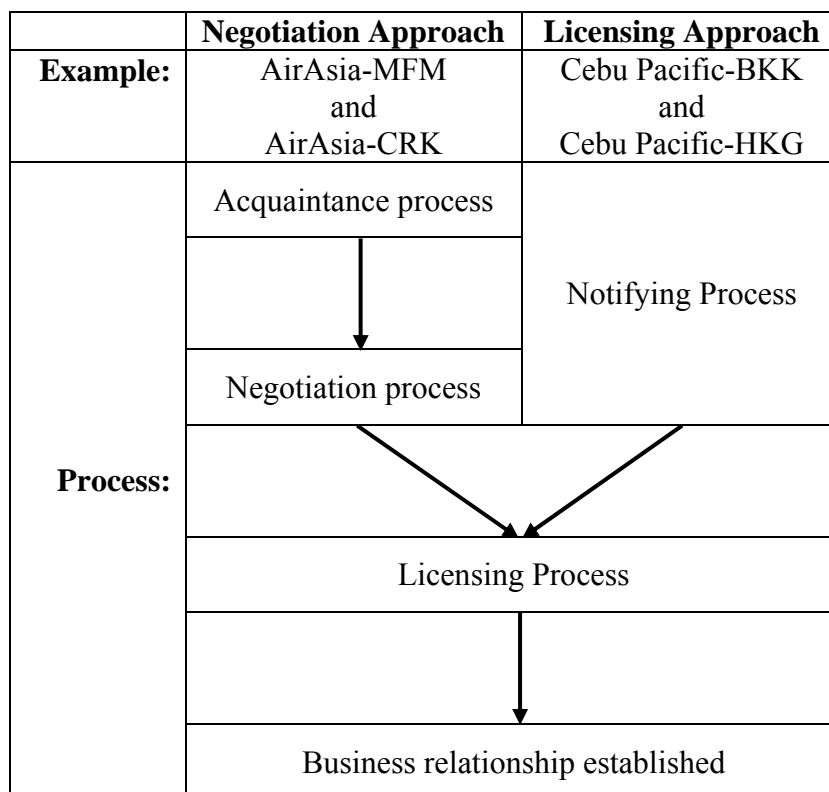


Figure 4.9: Two types of LCC-airport relationship development processes

According to the interviews, the business relationship of AirAsia-MFM, AirAsia-CRK, Cebu Pacific-BKK and Cebu Pacific-HKG can be divided into two types of development processes as illustrated in Figure 4.9. AirAsia-MFM and AirAsia-CRK represent the negotiation approach, while Cebu Pacific-BKK and Cebu Pacific-HKG the licensing approach. The negotiation approach goes through three steps before the business relationship can be established. These are the acquaintance process, negotiation process and licensing process. On the other hand, before the business relationship can be started, there are two steps within the licensing approach, which are the notifying process and licensing process of the LCC. Firstly, the negotiation approach is discussed, followed by the licensing approach.

4.3.1. Negotiation approach

4.3.1.1. Acquaintance process

Using the negotiation approach, in the case of both AirAsia-MFM and AirAsia-CRK, they had undergone an acquaintance process while both LCC and airport had the chance to become familiar with each other. In the case of AirAsia-MFM, MFM took the initiative to approach AirAsia at a CEO forum in Hong Kong during 2002. AirAsia claimed they had never heard of Macau before MFM first contacted them. Subsequently, MFM continuously sent a lot of information to AirAsia in order to arouse their interest. The information includes tourist statistics, competitiveness of Macau, capacity of MFM, current routes, support from the government as well as from the other operational parties within the airport, and economic benefit that would be brought about by liberalization of the gambling industry. At the same time, MFM also assigned a consultancy firm to conduct research into LCCs. In November, 2003, MFM conducted a study tour of the United States and England in order to understand

the LCC model, what they need and the potential contribution of LCCs to airports as well as to the society. In the case of AirAsia-CRK, it was AirAsia that took the initiative to approach CRK and expressed its interest to visit them. AirAsia claimed in the interview that it had always wanted to fly to MNL. As there were no traffic rights, AirAsia had to look for an alternative. Then it found CRK.

In both cases, AirAsia was not familiar with MFM and CRK airports or their cities of Macau and Clark. Therefore, there was a need for AirAsia to find out more about both airports and cities since the investment into new routes could be huge to the airlines. As a result, AirAsia conducted a study tour to MFM and CRK in December, 2003 and July, 2004 respectively. During the study tour to MFM, AirAsia met the management team and government officials of the Civil Aviation Department. In addition to a comprehensive study of Macau, AirAsia also studied the whole market of the PRDR. After the study tour, AirAsia began to consider including Macau as one of its destinations. During the study tour to CRK, AirAsia visited the airport, examined the physical facilities of CRK and transport linkage between Clark and Manila. After the study tour, AirAsia found that the hardware of CRK was simple enough to become an airport for the LCC with accessibility to Manila from Clark. AirAsia also provided information regarding its ability to boost the volume of air traffic to Malaysia which aroused CRK's interest. The acquaintance process appears to be particularly important in the case of AirAsia-MFM and AirAsia-CRK. AirAsia suggested that:

“... .. it was a period for us to get familiar with Macau, from unknown to knowing, and then have confidence to fly to MFM, the ground work was very important.”

While CRK suggested that:

“... .. they (AirAsia) sent a team of two to us at that time, we (AirAsia and CRK) didn't know each other we welcome AirAsia's initiation. Because it was sort of getting to know you (each other)”

As neither MFM nor CRK were famous airports, the LCC must become familiar with them to develop the confidence to fly there, and understand the market potential of those airports. On the other hand, MFM and CRK were not familiar with AirAsia either. The acquaintance process also provided an opportunity for those airports to understand the potential contribution of AirAsia. More importantly, AirAsia along with many LCCs, want to gain as much discount as possible from airports, while some airports such as MFM, want the LCCs to make long term commitment. Both parties need a negotiation process to convince the other side. Therefore, the acquaintance process provides them with a chance to become familiar with each other and form a ground for negotiation.

4.3.1.2. Negotiation and licensing process

Table 4.9: Comparison of negotiation and licensing process between AirAsia-MFM and AirAsia-CRK

Cases	AirAsia-MFM	AirAsia-CRK
AirAsia's request in negotiation	<ul style="list-style-type: none"> • Discount on airport charges and incentive program • Marketing support • Arrangement for operations • Technological support 	<ul style="list-style-type: none"> • Discount on airport charges and incentive program • Marketing support • Arrangement for operations
Airports' requests in negotiation	<ul style="list-style-type: none"> • Long term commitment • Restriction on expansion to the nearby airport • Airfare 	Nil
Other supports from LCCs	<ul style="list-style-type: none"> • Knowledge transfer 	Nil
Other supports from airports	<ul style="list-style-type: none"> • Clearance of rumour about LCC • Proactive assistance in negotiation for charges of ground handlers 	<ul style="list-style-type: none"> • Proactive assistance in negotiation for charges of ground handlers • Proactive assistance in negotiation for charges of Custom, Immigration and Quarantine (CIQ) • Proactive assistance in licensing process

Table 4.9 compares the negotiation as well as the licensing process between two cases, AirAsia-MFM and AirAsia-CRK. The comparison reveals that both AirAsia and MFM had mutual requests whilst providing support to each other at the same time. However, in the case of AirAsia-CRK, AirAsia was the only party to make requests while CRK was the only party to provide support. It appears that the case of AirAsia-MFM illustrates a more balanced business relationship, while the case of AirAsia-CRK demonstrates an inequality within a business relationship. The details of their negotiations and licensing processes follow.

The request of AirAsia

Discount on airport charges and incentive program

AirAsia requested MFM and CRK to waive all airport charges such as landing and parking fees and office and sales counter rental, for the first year. Charges eventually going to the government such as departure tax, MFM claimed that it simply does not have the authority to waive this. Within other areas of airport charges, MFM said that it could not waive all of them either because it does not receive any government subsidies so therefore had to make a certain level of profit in order to maintain its daily operation. After six months of negotiations, AirAsia understood the situation of MFM and considered its difficulties. AirAsia eventually gave up its request for full exemption on airport charges, office and sales counter rental. Alternatively, MFM also learned from their enquiries that keeping costs low is critical to LCCs. As a result, MFM agreed to offer some discounts on landing fees, parking fees, office and sales counter rental as well as incentives to encourage AirAsia to develop new routes, run additional flights to MFM and fly during non-peak hours. With approval by the Macau Government, MFM also applies this incentive program to other LCCs willing to operate at MFM.

Unlike MFM, CRK proactively offered airport discount to AirAsia as it said in the interview:

“... .. it’s difficult to compete for us to attract airlines like this. We use money discount to lower their airport cost.”

However, the discount was not attractive enough to AirAsia. AirAsia then requested full exemption. CRK suggested that:

“... .. trying to attract them (AirAsia)of course we have to give them incentive, and they have exemption for landing fee for at least a year.”

CRK was also willing to exempt AirAsia’s office rental and check-in counter. CRK mentioned that it had a standard range of airport discounts before it negotiated with AirAsia. However, in order to accommodate AirAsia’s request, CRK had to set up an alternative standard. The new range of fee charging and incentive system became the benchmark for other LCCs thereafter.

Marketing support

In 2003 and 2004, the LCC was a rather new concept to the aviation industry as well as to the general public of Macau. AirAsia was afraid that the general public in Macau and China may have a poor perception towards LCCs, such as being inferior, or having poor service and safety. Therefore, AirAsia negotiated with MFM for support in promoting the positive image of LCC to educate the general public. MFM agreed to prepare and distribute leaflets regarding the benefit of the LCC to the general public.

AirAsia also requested CRK to help with their marketing. CRK described that this was the most difficult topic because it was a new concept to CRK in promoting airlines. Moreover, CRK claimed that it had financial difficulties and did not have budget to promote one particular airline. In order to fulfil AirAsia’s request, CRK

suggested a generic marketing program. This would promote the tourism industry of Clark as a whole and would promote all airlines at the same time by revealing which airlines were flying and also planning to fly, into Clark. AirAsia finally agreed to this alternative plan.

Arrangement for Operations

Quick turnaround is one of the most important operational characteristics of LCCs which requires cooperation from all ground parties at the airport, such as ground handling, engineering and refuelling. AirAsia requested MFM to act as a coordinator of all ground parties during the actual operation in order to ensure AirAsia could turnaround quickly and smoothly. MFM and AirAsia also negotiated the check-in procedures. Normal practice for MFM is to provide a check-in system and sell boarding passes to airlines which can generate extra income for the airport. However, in order to save costs, normal practice to AirAsia is to use its own check-in system without using the boarding pass provided by the airport. As a result, MFM specifically changed its normal practice for AirAsia and agreed that AirAsia does not have to use the check-in system and boarding pass provided by the airport.

AirAsia also requested support from CRK to ensure quick turnaround. During the study tour, AirAsia inspected the airport facilities of CRK. Thereafter, AirAsia emphasized its concern regarding the ability of CRK to carry out a fast turnaround. As a result, AirAsia requested that CRK arrange parking bays for them that could allow aircraft to power-in and power-out. This meant that push-back would not be needed to enable AirAsia's aircraft to take off. This operational arrangement could save both cost and time for AirAsia. AirAsia also requested an increase in the

number of check-in counters and luggage conveyance belts in order to speed up the check-in and luggage delivery process. All requests by AirAsia to improve airport facilities are aimed at achieving a fast turnaround. CRK agreed to all of these requests and upgraded its facilities accordingly.

Technological support

In terms of technology, AirAsia requested MFM to support their check-in system which is ticketless. In order to do this, AirAsia requested that MFM set up wireless broadband in the airport. This was not common in Macau during 2004. During the process of setting up these systems for AirAsia, MFM encountered various types of problems. AirAsia also agreed to send a technological team to MFM so as they could tackle the problems together.

Requests by MFM

According to the interview, MFM made several requests in return to AirAsia. On the other hand, CRK accepted the requests from AirAsia, but did not make any counter-requests.

Long term commitment

MFM viewed the discount on airport charges, incentive program and long term development of AirAsia as one single package. Since the start of their relationship, MFM has aimed for a long term business development with AirAsia. Therefore MFM requested that AirAsia commit to a long term business development plan. MFM indicated that it was willing to make concession and offer discounts on airport charges, office and sales counter rental, given that AirAsia agreed to commit to a

long term development plan with MFM. The plan stated that AirAsia has to increase passenger volume, numbers of routes and frequencies to a certain level within a given period of time. However, AirAsia indicated that it was comparatively conservative at the beginning. This was because AirAsia believes that the airlines industry, in particular the LCC, is a fragile industry, therefore a tiny change in the economic environment can bring a big influence to the airlines. Therefore, AirAsia was conservative in making any commitment to MFM. MFM also indicated that AirAsia was not willing to make any commitment at the beginning of the negotiation. Eventually, AirAsia made concessions and agreed to the long term commitment for exchange of a discount and incentive program. Meanwhile, MFM also showed an understanding regarding the concerns of AirAsia about abrupt changes to the business environment. Therefore MFM agreed to the counter request by AirAsia and promised to conduct a six-monthly review with them on long term commitments, progress and business environment. This arrangement provided flexibility to both parties in implementing the development plan. Both parties could also discuss the development plan and gain support from each other whenever they encountered any unexpected problems.

Restrictions on nearby airports to the expansion of AirAsia

In addition to the development of routes at MFM, MFM also requested AirAsia not to fly to nearby airports in the PRDR within the first two years of operation with them. The purpose of this restriction was to protect the development of the LCC segment within MFM at its infancy stage. Although one of the goals of AirAsia in flying to MFM is to eventually extend its network to Mainland China, they still agreed to this request. AirAsia claimed that they agreed to this restriction because

MFM gave them support as requested and it should likewise meet MFM's request. In addition, they believed that this request is fair to both parties.

Airfare

The airport discounts and incentives program set out in the agreement are based on the assumption that AirAsia would offer substantial low fares to the general public, which in turn would increase traffic volume to MFM, as well as tourist arrivals eventually to Macau. Therefore, MFM requested AirAsia to maintain its low fares continuously and seriously. In order to ensure that AirAsia is offering a low fare, MFM periodically compared airfares of AirAsia with other airlines.

Other support from AirAsia

Knowledge transfer

On one hand, AirAsia made requests to MFM and CRK; on the other hand, it would also provide some support to the airport. However, this only happened in the case of AirAsia-MFM. AirAsia requested MFM and their ground parties to carry out turnaround within 30 minutes. However, both MFM and the ground parties did not have any practical experience in handling the LCC. They did not believe this could be achieved in the beginning because they did not have the knowledge to achieve it. AirAsia sent an operational team to teach MFM and their ground parties about the practical techniques and skills required to achieve the 30 minute turnaround. AirAsia also sent a team of information technology experts to MFM to teach them how to tackle the IT problem in order to make the operation smooth in the future. The knowledge transferred from AirAsia actually created long term benefits to MFM and

their ground parties, because they made use of this knowledge to handle and serve other LCCs eventually flying to MFM.

Other support from airports

MFM: Clearance of rumours regarding the LCC

During the negotiation, there was a rumour in Macau that the LCC would edge the flag carrier out of business in the future. According to AirAsia, Air Macau had a strong response to this rumour and had once objected to the emergence of AirAsia. MFM, as well as the Macau SAR government have to consider the impact of the LCC on Air Macau. AirAsia explained that Air Macau is providing a luxury product to travellers in relation to a 5-star hotel, while AirAsia is providing a budget product in relation to a 3-star hotel. The LCC explained that it was serving a different market to Air Macau and adding variety to the market by giving passengers more choices. AirAsia also suggested that the tourism industry would only flourish if mass tourist arrivals could be achieved. The LCC was capable of reaching the mass market. Both MFM and AirAsia believe that AirAsia is complementary to Air Macau rather than a competitor. Therefore, MFM helped AirAsia to convey this message to The Land, the Public Works and Transport Bureau, the Macau Government Tourist Office and Civil Aviation Authority. This convinced the Macau SAR government to accept AirAsia and eventually approved the discounts and incentives program.

MFM and CRK: Proactive assistance in negotiation for charges of ground handlers

Both MFM and CRK proactively requested that ground handling companies such as cleaning, refuelling and baggage handling, minimize handling fees to AirAsia. Before the negotiation started, MFM had already requested that ground parties fully

support the airport to accommodate AirAsia. On the other hand, CRK also stated clearly to the ground handling companies that their charges should be lower than those ground handling companies within MNL and CEB. As a result, AirAsia smoothly negotiated with the ground parties within MFM and CRK and came up with a very low cost package.

CRK: Proactive assistance in negotiation for charges of Customs, Immigration and Quarantine (CIQ)

In the Philippines, CIQ has a practice of charging airlines for handling passengers. The CIQ charges are separated from airport charges. However, there are no standards in calculating the CIQ charges. The charges are neither fixed nor in proportion to, the number of passengers. Therefore, it is unmanageable to airlines. CRK proactively negotiated with CIQ in Clark for a fixed tariff because “*we (CRK) tried to attract some budget carriers.*” As CIQ charges are unmanageable for airlines, LCCs may hesitate in flying into CRK. Therefore, CRK tried to make it more manageable and predictable for AirAsia, as well as other airlines in the future.

CRK: Proactive assistance in licensing process

CRK claimed that obtaining an operating license for a foreign airline is a very long process in the Philippines. This is because the Civil Aviation Authority of the Philippines (CAAP) has to hear from local airlines if they want to make any objections. Unfortunately, the board meetings of CAAP only happens once a month, or sometimes only every two months, in which they have to handle many applications from airports all over the country. The whole process also involves a lot of procedures and paper work. CRK claimed that if it does not take the initiative to

assist AirAsia, the application process would be deferred. Although AirAsia has its own lawyer in the Philippines to apply for the operation license, CRK still provided assistance. CRK described itself as a free legal consultant during the process. CRK claimed that the reason for providing this assistance was because it wanted to speed up the licensing process. CRK believes that it can communicate with CAAP in the same language because the personnel of both CAAP and CRK have known each other for more than 10 years. CRK indicated that this communication ability can expedite the licensing process. On the other hand, the licensing process of AirAsia in Macau was fairly normal, as neither party mentioned anything about assistance or obstacles within the licensing process.

4.3.2. Licensing Approach

4.3.2.1. Notifying and licensing process

The development processes of Cebu Pacific-BKK and Cebu Pacific-HKG are different to the negotiation approach. The acquaintance and negotiation process have not been found in these two cases. Instead, two steps were found which are the notifying and licensing process. Cebu Pacific suggested in the interview:

“... .. here is a price list (of airport charges), if you want to come here, here is the price by the way, there is no negotiation there is only application, you are allowed to come or you are not allowed to come.”

HKG suggested in the interview:

“Cebu Pacific has to apply for operational permit from Civil Aviation Department of Hong Kong they only have to tell us they are going to fly to HKG” and “We will not negotiate charges with individual airlines”

While BKK said:

“If Department of Civil Aviation approved them, we have nothing to bargain.”

and:

“... .. we never discount to anybody (any airlines).”

The quotations of Cebu Pacific, BKK and HKG generally illustrated the development process of their business relationships. Although Cebu Pacific tried to request a discount on airport charges from BKK and HKG, they rejected its request and expressed that there was no room for negotiation. They never negotiate with any airline. BKK and HKG suggested that they only need Cebu Pacific to notify them of their intention to fly into them. BKK claimed that it would only provide physical and general airport information if airlines contact them to express their intention to fly into BKK. This information covers things such as number of gates, length of runways and airport charges. In addition to the general information mentioned by BKK, HKG would provide additional information to airlines approaching them such as ground service providers and general sales agents in Hong Kong. As well as

notifying the airports, Cebu Pacific had to apply for all necessary operational licenses and airport slots. In the case of Bangkok, Cebu Pacific had to apply for the operational licenses from the Department of Civil Aviation and airport slots from the Airport of Thailand Company Limited (AOT). BKK suggested in the interview that airport slots in Thailand are actually controlled by the flag carrier, Thai Airways, although Cebu Pacific has only ever contacted AOT.

In Hong Kong, Cebu Pacific had to apply for the operational licenses from Civil Aviation departments while the airport slots are allocated by Cathay Pacific Airways on behalf of the HKSAR Government. Both airports indicated that they did not get involved in the licensing process. Instead, Cebu Pacific had to deal with Civil Aviation departments in Hong Kong and Bangkok by themselves. It appears that the licensing process is the key step within the licensing approach. As Cebu Pacific said: “... .. *you are allowed to come or you are not allowed to come.*” and BKK indicated that it had nothing to bargain with regarding Cebu Pacific if the Civil Aviation department allows the LCC to fly to BKK. In the licensing approach, whether the LCC-airport business relationship can be started is determined by whether the LCC can obtain the necessary licenses.

4.3.3. Summary of LCC-airport relationship establishment process

In both cases of AirAsia-MFM and AirAsia-CRK, relationships were established through the negotiation approach. The acquaintance processes in both cases were similar to each other. However, the negotiation processes showed some major differences. In the case of AirAsia-MFM, both AirAsia and MFM showed that they had made requests to each other. At the same time, they provided support to each

other. In contrast, in the case of AirAsia-CRK, AirAsia was the only party to make requests while CRK was the only party to provide support. On the other hand, in both cases of Cebu Pacific-BKK and Cebu Pacific-HKG, their relationships were established through the licensing approach. Cebu Pacific only followed the standard licensing procedures of BKK and HKG.

The major difference between the negotiation approach and licensing approach is that LCCs and airports would bargain with each other using the negotiation approach, while there is no room for negotiation within the licensing approach. Therefore, by using the negotiation approach, LCCs would only go for the licensing process after both LCCs and airports have consent of the negotiation. However, within the licensing approach, the notifying process is not necessarily to be finished before the licensing process can begin. Instead, these are both ongoing processes which can take place concurrently. Airlines can notify airports of their intentions to fly there and at the same time apply for the necessary licenses from the Civil Aviation Authorities.

Once the LCC-airport business relationships are established, they continue to grow the relationships. Their relationship outcome is shaped differently according to the ways they interact with each other. The interaction between LCCs and airports during the growth process of their relationships is first reported and followed by a discussion of their overall interaction within the establishment and growth stage of the relationship. The relationship outcome is discussed in the section after.

4.4. Growth process of LCC-airport relationships

The growth process explains how LCCs and airports grow their business relationships. In this process, the LCCs have actual operations within the airports bringing intensive interaction between them. This section examines how the LCC-airport relationships are grown by analyzing how they interact with each other.

4.4.1. LCC-airport Interaction during the growth process

AirAsia-MFM

Since 2004, AirAsia has already been operating into MFM for 4 years. In the beginning, AirAsia flew daily services from KUL and BKK to MFM. Both routes have increased gradually since then by making four flights daily in 2008. Meanwhile, AirAsia also increased the number of routes. It also started a daily service from BKI and JHB to MFM as well as three weekly flights between KCH and MFM in 2007.

AirAsia:

“From the beginning to now, it is 4 years already, in these 4 years; MFM keeps on supporting us anyway.”

MFM:

“... .. AirAsia does their best to meet the commitments that they promised.”

After AirAsia and MFM established their business relationship, they both indicated that there is no major conflict or obstacle between them because both parties

implement the agreement and provide support to each other as promised. For instance, MFM promised long term support to AirAsia in the negotiation. AirAsia indicated that MFM supported it by granting them a grace buffer for the incentive program. Even if AirAsia fell slightly short of the requirements, MFM still allowed them entitlement to the incentive program. MFM suggested that it did this because AirAsia has done their best to meet their commitments. This is important to AirAsia, particularly when the global financial crisis began in July 2007.

At this point the fuel price jumped significantly and reached the historical high of US\$141/barrel (Organization of the Petroleum Exporting Countries, 2009). From March 2008 to September 2008, the fuel price was maintained above US\$100/barrel (Organization of the Petroleum Exporting Countries, 2009). AirAsia indicated in the interview that the flexibility of the incentive program offered by MFM helped it maintain its operation during such a difficult economic situation. AirAsia had to suspend flights from KUC, JHB and KBI to MFM as well as reduce flight frequencies of KUL/MFM and BKK/MFM to three per day from October 2008. This was due to the high fuel price and implementation of new visa restrictions to PRC residents visiting Macau. Soon after, in March, 2009 it reinstated all flights apart from JHB/MFM. However, AirAsia started another new operation of four weekly flights between Penang (PEN) and MFM in March 2009. The action of AirAsia shows it values the business relationship with MFM and stated in the interview:

“Even if some serious problems come up, it will not turn out that we will give up MFM, MFM will not give up AirAsia too. We have many communications, we do not make any decision secretly which is hid from

the counterpart. For instant, the fuel price has been very high for several months, we have to withdraw some flights. We let them know too. They also understand why we have to do so.”

As soon as the fuel price went down to a reasonable level, AirAsia resumed the flights to MFM immediately.

Fortunately, AirAsia and MFM had frequent communication. Both AirAsia and MFM suggested that whenever they encounter operational problems, they always solve the problem via discussion and communication. Communication frequently reaches the top level management of AirAsia and MFM. As they have a mutual long term business development plan, whenever they want to make any changes to the plan, they discuss it openly with each other. AirAsia mentioned that they do not hide their decisions from each other. MFM claimed in the interview that sometimes the CEO of AirAsia, Tony Fernandes, discusses his concerns directly with the executive directors of MFM. These actions illustrate that both AirAsia and MFM are supportive to each other and work towards a solid and conflict-free business relationship.

AirAsia-CRK

AirAsia and CRK had negotiated for around seven months before AirAsia operated its inaugural daily service to CRK from KUL and BKI on 6th April, 2005. Since then, the flight frequency has remained unchanged. Both AirAsia and CRK claimed that there is no conflict between them since their business relationship has been established. CRK suggested in the interview that:

“When we say something, we do it, even not on paper so they have confidence in us... ..”

CRK materialized both written and verbal promises seriously which makes AirAsia have confidence in CRK. This is because AirAsia knows that CRK is trustful and reliable. As a result, AirAsia contacts the senior management of CRK directly as soon as possible whenever it encounters any problems or has any requests, because it knows that CRK would be responsive to its concerns. In the same as the case of AirAsia-MFM, the concerns of AirAsia always reach the top management of CRK.

CRK also gave additional support during the operation. AirAsia described that the financial crisis in 2007 and the high fuel price of the following year, was a critical time for them. CRK claimed that they understood this problem. Therefore CRK agreed to extend the exemption of airport charges and office rental, as well as the incentive program, when AirAsia requested them to do so. CRK explained that it did these things because it wants AirAsia to keep their operation at CRK. CRK claimed that passenger arrivals have increased from 7000 to half a million per annum since AirAsia has started operating with them, which also meant significant tourism and economic benefit to Clark. Therefore, CRK does not want AirAsia to delete the operation at CRK when the economic situation becomes even worse. AirAsia also indicated that it may have to cut off some flights during the hard times and that it tends to keep the operation at airports giving extensive support. Moreover, AirAsia claimed that if it did cut off the operation at an airport, it may not go back again. On the other hand, CRK continues to invite AirAsia to increase numbers of routes and

flight frequencies. With the actions and invitations made by CRK, AirAsia's number of routes and flight frequencies remain unchanged.

Cebu Pacific-BKK and Cebu Pacific-HKG

Cebu Pacific started operations at BKK and HKG in December 2006 and November 2001 respectively. Cebu Pacific operates seven flights per week from MNL and three flights per week from CEB respectively, to BKK. Previously, Cebu Pacific had flown twice daily between MNL and HKG. The flight frequencies increased to thrice daily in 2006 and four daily in 2008. In addition, Cebu Pacific also started operating four weekly flights between CEB and HKG in 2006 and increased to five per week in 2007. In 2008, Cebu Pacific further increased its destinations and flew four weekly flights from DVO and CRK to HKG.

Both BKK and HKG described that the operations of Cebu Pacific are just the same as those of other airlines. They did not make any special operational arrangements for Cebu Pacific and did not make any requests either. Cebu Pacific also claimed in the interview that BKK and HKG just treat them the same as other airlines. Cebu Pacific tried to request a more convenient gate at BKK and HKG. BKK and HKG replied that it is subject to availability and flight schedule.

According to the interview, it appears that BKK and HKG have developed a mechanism applied to all airlines. Whenever airlines approach them and make requests, they respond in a standard way. BKK requested all airlines switch off engines and use a ground power unit when their aircraft is in the parking bay, which would incur more cost and time. Cebu Pacific tried to negotiate and suggested

shutting down the engine with the auxiliary power unit (APU) running. This suggestion is more cost and time efficient to Cebu Pacific because its aircraft is only on the ground for 30 minutes. However, BKK rejected the suggestion because all airlines must be treated the same. As BKK said in the interview:

“... .. for our operation, our service, all airlines must be the same we have the standard to treat airlines in our procedures, the same Just regular (handling procedure) to do it, nothing special we treat them (Cebu Pacific) as a regular business partner.”

HKG also said:

“... .. what we want to do is we want to treat every airline equal we treat the legacy carriers and LCCs the same nothing special at all, just something we do normally. I do not think Cebu Pacific is a special case.”

The communications between Cebu Pacific and BKK, as well as between Cebu Pacific and HKG, are different than in the case of AirAsia-MFM and AirAsia-CRK. Both Cebu Pacific and BKK suggested that they had difficulties in locating the correct department and the right person to communicate with. Their communications remain at operational level and are mainly done via a handling agent in Thailand. Communication and discussion between their top management is rare. Instead, BKK suggested that airlines can raise their concerns with the Customer Relationship Management Committee (CRM) and Airport Operation Committee (AOC).

The communication between Cebu Pacific and HKG is much smoother. In addition, communication is more frequent because Cebu Pacific continues to take the initiative in increasing the number of routes and flight frequencies to HKG. However, their communication remains at operational level only. The same as in the case of Cebu Pacific-BKK, communication and discussion between top management of Cebu Pacific and HKG is rare. HKG also suggested that airlines can discuss their issues with the airport with the Airlines Operators Committee (AOC). It appears that BKK and HKG prefer to communicate with airlines via a periodical mass communication channel rather than on an ad-hoc basis or in a spontaneous way. In fact, discussion and negotiation with individual airlines rarely happen. Instead, it is the case that BKK and HKG handle all airlines in a standard way and Cebu Pacific follows their standard in their operations. The only difference between the case of Cebu Pacific-BKK and Cebu Pacific-HKG is that Cebu Pacific retains the flight frequency to BKK at a low level while it proactively increases the numbers of routes and flight frequencies to HKG.

This section outlines the LCC-airport interaction from the time of first contact with each other to the time of establishing their business relationships. The next section summarizes and analyzes the overall interaction between LCCs and airports as well as their relationship outcomes. By doing so, this research can examine how their business relationships are established and developed, as well as how their relationship outcomes are shaped by their interaction.

Stage 3: Relationship Outcomes

4.5. Relationship outcomes of LCC-airport

Table 4.10: Overall LCCs-airports interaction and relationship outcomes

Cases	Attitude and actions of LCCs	Attitude and actions of airports	Implications	Relationship Outcomes
AirAsia-MFM	<ul style="list-style-type: none"> Business relationship established with negotiation approach <ul style="list-style-type: none"> Willing to be flexible Willing to discuss Willing to make concession 		✓ Mutual compromise	✓ Solid strategic-reciprocal relationship
	Examples: ✓ made a long term commitment	Examples ✓ offered discounts on airport charges and incentive program ✓ gave up its normal practice of selling boarding pass to airlines particularly for AirAsia		
	<ul style="list-style-type: none"> Help each other to solve problems Help each other to grow business in the long run Tackle threats and unexpected issues together <ul style="list-style-type: none"> Consistent support 		✓ Mutual support	
	Examples: ✓ agreed not to fly to nearby airport within the first two years ✓ sent IT team to help MFM tackle the problem of check-in system ✓ sent operation team to teach MFM and ground parties skills of fast turnaround ✓ resumed flights as soon as possible during the economic downturn ✓ materialized the agreed commitments and promises	Examples ✓ set up a new check-in system particularly for AirAsia ✓ proactively liaised with ground parties for a low cost package ✓ coordinated with ground parties to ensure a smooth operation ✓ provided marketing support ✓ cleared the rumour about the influence of LCC on flag carrier ✓ agreed to periodically review the long term commitment ✓ provide grace buffer to incentive program ✓ agreed to provide support in the long run ✓ materialized the agreed commitments and promises		
	<ul style="list-style-type: none"> Top management design long term business development plan together Frequent and clear communication between top management regarding long term business development <ul style="list-style-type: none"> Endeavor to increase the number of routes and frequencies steadily since the beginning Endeavor to maintain the business relationship even during the economic downturn 		✓ Mutual strategic planning ✓ Strong mutual attachment	

Cases	Attitude and actions of LCCs	Attitude and actions of airports	Implications	Relationship Outcomes
AirAsia-CRK	<ul style="list-style-type: none"> Business relationship established with negotiation approach 		<ul style="list-style-type: none"> Unilateral compromise 	<ul style="list-style-type: none"> Unilateral committed relationship
	<ul style="list-style-type: none"> Did not make any concession 	<ul style="list-style-type: none"> Willing to be flexible Willing to discuss Willing to make concession <p>Examples:</p> <ul style="list-style-type: none"> exempted airport charges for the first year offered incentive programs conducted a generic promotion program 		
	<ul style="list-style-type: none"> Did not provide any support 	<ul style="list-style-type: none"> Help AirAsia to solve problems Provide assistance proactively <p>Examples:</p> <ul style="list-style-type: none"> arranged power-in and power-out parking bay increased check-in counter and luggage conveyance belt proactively liaised with ground parties for a low cost package proactively liaised with CIQ for a fixed tariff proactively assisted in licensing process extended the exemption of airport charges extended the incentive program materialized all written and verbal promises 	<ul style="list-style-type: none"> Unilateral support 	
<ul style="list-style-type: none"> Top management contact CRK for further support or requests 	<ul style="list-style-type: none"> Top management showed support in communications and discussions with AirAsia Top management continues inviting AirAsia to increase flight operations Endeavor to retain AirAsia during economic downturn 	<ul style="list-style-type: none"> Unilateral wishful attachment 		

Cases	Attitude and actions of LCCs	Attitude and actions of airports	Implications	Relationship Outcomes
Cebu Pacific-BKK	<ul style="list-style-type: none"> Business relationship established with licensing approach <ul style="list-style-type: none"> Follow BKK's practices <p>Examples</p> <ul style="list-style-type: none"> ✓ notified BKK about its intention to fly ✓ applied for necessary licenses only without any negotiation <ul style="list-style-type: none"> Try to request special arrangements regarding operation issues 	<ul style="list-style-type: none"> Apply standard practices, standard handling procedures and standard charges to all airlines <ul style="list-style-type: none"> Examples ✓ no room for negotiation ✓ no special arrangement for operation of Cebu Pacific ✓ Standard response to requests by airlines' 	<ul style="list-style-type: none"> ✓ Unilateral compromise ✓ Mechanical interaction 	<ul style="list-style-type: none"> ✓ Loose-institutionalized relationship
	<ul style="list-style-type: none"> Communication through a standard mass general meeting (CRM and AOC) together with all airlines <ul style="list-style-type: none"> Ad-hoc and spontaneous communication or discussion between top management was rare <ul style="list-style-type: none"> Find difficulties in locating the correct department and the right person to contact <ul style="list-style-type: none"> Communication about operation issues is made through handling agent <ul style="list-style-type: none"> Flight operation remained at a very low level Neither Cebu Pacific nor BKK took initiative to discuss increasing the number of routes and flight frequencies 		<ul style="list-style-type: none"> ✓ Loose attachment 	
Cebu Pacific-HKG	<ul style="list-style-type: none"> Business relationship established with licensing approach <ul style="list-style-type: none"> Follow HKG's practices <p>Examples</p> <ul style="list-style-type: none"> ✓ notified HKG about its intention to fly ✓ applied for necessary licenses only without any negotiation 	<ul style="list-style-type: none"> Apply standard practices, standard handling procedures and standard charges to all airlines <ul style="list-style-type: none"> Examples ✓ no room for negotiation ✓ no special arrangement for the operation of Cebu Pacific ✓ Standard response to requests of airlines 	<ul style="list-style-type: none"> ✓ Unilateral compromise ✓ Mechanical interaction 	<ul style="list-style-type: none"> ✓ Unilateral attached-institutionalized relationship
	<ul style="list-style-type: none"> Communication through a standard mass general meeting (AOC) together with all airlines <ul style="list-style-type: none"> Ad-hoc and spontaneous communication or discussion between top management was rare <ul style="list-style-type: none"> Cebu Pacific took initiative to increase number of routes and flight frequencies to HKG from time to time 		<ul style="list-style-type: none"> ✓ Unilateral wishful attachment 	

Table 4.10 summarizes the overall interaction between LCCs and airports in the cases of AirAsia-MFM, AirAsia-CRK, Cebu Pacific-BKK and Cebu Pacific-HKG, which are reported in the previous section. From the analysis of their attitudes and chain of episodes from their actions (Hakansson & Snehota, 1995; IMP Group, 1982) within their relationship establishment and growth stage, LCCs and airports demonstrated different ways of interaction which resulted in four different types of business relationship outcomes. Their interaction showed a different level of compromise, support and commitment to each other, hence the strength of the business relationship. As a result, AirAsia-MFM was found to form a solid strategic-reciprocal relationship, in which mutual compromise, mutual support, strategic partnership and strong mutual attachment was found within their interaction. AirAsia-CRK demonstrated a unilateral committed relationship, in which CRK showed unilateral compromise, unilateral support and unilateral wishful attachment to AirAsia. Cebu Pacific-BKK formed a loose-institutionalized relationship, while Cebu Pacific-HKG formed a unilateral attached-institutionalized relationship. Within their interaction, Cebu Pacific showed unilateral adaptation to the standard practices of BKK and HKG, while BKK and HKG interacted with Cebu Pacific according to their standards in a mechanical way. Cebu Pacific and BKK had a loose attachment to each other, while Cebu Pacific showed unilateral wishful attachment to HKG. This section discusses the characteristics of various types of LCC-airport relationship outcomes, and is followed by an analysis of why LCCs and airports interact in such a way; hence the results of the particular types of relationship outcomes.

Solid strategic-reciprocal LCC-airport relationships: AirAsia-MFM

According to the chain of interaction between AirAsia and MFM, this research found that the AirAsia-MFM formed a solid strategic-reciprocal LCC-airport relationship. This is defined in that both LCCs and airports are willing to compromise and support each other, as well as to plan long term business development together for the well-being of each other and for the sake of the development of their business relationship; hence LCCs and airports become strongly attached. In the case of AirAsia-MFM, mutual compromise, mutual support, mutual strategic planning and strong mutual attachment was found to be common behaviour between them.

Both AirAsia and MFM indicated in the interview that they had their own problems and concerns during negotiations and operations. For instance, AirAsia was concerned about airport costs, was worried about making a long term commitment and the misunderstanding of LCCs by the general public. On the other hand, MFM had great difficulties in waiving all airport charges as requested by AirAsia. It was also concerned about the long term development of MFM and the development of the LCC market segment at MFM during its infancy stage. Both AirAsia and MFM indicated that the gap between them was mainly because of different expectations of airport charges and long term commitment. AirAsia emphasized the importance of low cost in the interview, therefore it requested zero airport charges. MFM expressed clearly to AirAsia that zero airport charges was impossible but it also wanted AirAsia to commit to a long term development plan. However, AirAsia hesitated in making any long term commitment as it worried about abrupt changes within the economic environment. Confronting this major chasm, the interacting parties could have chosen to insist on their own demands whilst resist their

counterparts', letting the negotiations end in deadlock. However, both showed they were flexible enough and willing to discuss, make concessions and help each other solve problems as well as eliminate obstacles. AirAsia and MFM chose to narrow the chasms between them by making compromises and providing support to each other. MFM made a certain extent of concession to AirAsia by providing a counter offer on airport discounts and the incentive program. In addition, MFM also promised to provide AirAsia every support in the long term and to periodically review long term commitment. In response, AirAsia also made concessions to MFM by promising long term commitment. In addition, AirAsia agreed not to fly to nearby airports in the PRDR within the first two years of operating with MFM, in order to support the development of the LCC segment within MFM. Both AirAsia and MFM materialized all support and commitment as agreed.

Mutual compromise existed in the case of AirAsia-MFM when both were willing to change their original demands, accept the demand of their counterpart and make concessions to each other. Mutual support also occurred when they were willing to help each other solve problems and eliminate obstacles, as well as implement the agreed commitment and promises. Mutual strategic planning occurred when both AirAsia and MFM configured the long term business development plan together. Throughout the whole establishment and growth process of their relationship, AirAsia and MFM developed a strong attachment to each other.

This is reflected in the communication style between top management and their endeavour to increase flight operations, as well as maintain their business relationship during the economic downturn. With the existence of mutual

compromise, mutual support, mutual strategic planning and mutual strong attachment, a solid strategic-reciprocal LCC-airport relationship was formed between AirAsia and MFM.

Unilateral Committed LCC-Airport Relationships: AirAsia-CRK

The chain of interaction between AirAsia and CRK showed that CRK was the party in the relationship showing unilateral compromise, unilateral support and unilateral wishful attachment to AirAsia. AirAsia-CRK formed a unilateral committed LCC-airport relationship which is defined as the airport is the only party in the relationship willing to compromise, provide support and have a strong attachment to the other side in order to maintain the business relationship, hence the ultimate benefit to oneself.

The same as in the case of AirAsia-MFM, negotiations also happened in the case of AirAsia-CRK. However, unlike a solid strategic-reciprocal LCC-airport relationship, interaction between AirAsia and CRK during negotiation and operation, showed that CRK was the only side willing to be flexible, make concession, solve the other side's problems and show wishful attachment to the other side. During negotiation and operation, CRK provided financial discount and other support to AirAsia proactively, or on request. For instance, under the request of AirAsia, CRK agreed to fully exempt its airport charges, office and check-in counter rental. However, CRK did not request AirAsia to make a long term commitment on business development in return for the exemption of airport charges as MFM did. In order to fulfil AirAsia's request to promote AirAsia, CRK also agreed to conduct a generic promotion program although it has a tight financial status. CRK arranged for power-in and

power-out parking bays for AirAsia particularly and also increased check-in counters and luggage conveyance belts at AirAsia's request. In order to eliminate obstacles, CRK assisted AirAsia in the licensing process and liaised with ground parties for a low cost handling package and liaised with CIQ for a fixed tariff. Throughout negotiations and operations, AirAsia was the only party to make requests while CRK was the only party to make concessions and help the other side solve problems. Communication between top management of AirAsia and CRK reflected CRK had a unilateral wishful attachment to AirAsia. CRK showed support to AirAsia's business development at CRK and continued to invite AirAsia to increase flight operations. However, AirAsia maintained a low level of flight operation within CRK from beginning to now. Based on actions of AirAsia and CRK, their business relationship is classified as a unilateral committed LCC-airport relationship.

Loose-institutionalized LCC-Airport Relationship: Cebu Pacific-BKK

From the interaction between Cebu Pacific and BKK, their business relationship is found to be a loose-institutionalized LCC-airport relationship which is defined as the LCC or airport "*incorporated into a structured and well-established system*" (*The Free Online Dictionary, 2009*) of the other side of the business relationship, while both parties are loosely attached to each other. The business relationship of Cebu Pacific-BKK is totally different to that of AirAsia-MFM and AirAsia-CRK.

In the case of AirAsia-MFM and AirAsia-CRK, LCCs and airports established their business relationship with the negotiation approach. Negotiation, compromise and support can be found throughout the establishment and growth process of their business relationship. However, in the case of Cebu Pacific-BKK, the business

relationship was established with the licensing approach. The LCC and airport did not negotiate with each other. BKK has developed a standard system and handling procedure to deal with airlines, which are generic to all airlines. BKK suggested that whatever airlines, FSCs or LCCs approached them, the handling procedures would be the same and airport charges would also be the same for all. The position of BKK is clear, in that they would not negotiate, compromise or provide special support to any particular airline, meaning that they would not change these systems and procedures for any individual airline. BKK emphasized that all airlines are treated the same according to their established systems and procedures, including Cebu Pacific. Therefore, throughout the business development process, Cebu Pacific is the one to compromise and follow BKK's practices. Communications between Cebu Pacific and BKK are not the same as in the case of AirAsia-MFM and AirAsia-CRK. Communication between top management is rare in the case of Cebu Pacific-BKK. In fact, both Cebu Pacific and BKK suggested that they had difficulties in locating the right department and person to communicate with. Their communication remained at operational level and was via the handling agent in BKK. On the other hand, BKK prefers to communicate with all airlines through periodic mass meetings.

The actions of Cebu Pacific and BKK showed that Cebu Pacific makes compromise and follows the long established systems and practices of BKK as all other airlines do. BKK treats all airlines in a standard way. Unilateral compromise and mechanical interaction were found in the cases of Cebu Pacific-BKK and Cebu Pacific-HKG. The way in that Cebu Pacific and BKK communicate, together with the low volume of flight operation, demonstrate that the parties have a loose

attachment to each other. Therefore, their LCC-airport relationship was classed as loose-institutionalized.

Unilateral attached-institutionalized LCC-Airport relationship: Cebu Pacific-HKG

The case of Cebu Pacific-HKG demonstrated a unilateral attached-institutionalized LCC-airport relationship. “Institutionalized” is defined as “a *structured and well-established system*” (The Free Online Dictionary, 2009). This study therefore defined the unilateral attached-institutionalized LCC-airport relationship as the LCC following a structured and well-established system of the airport, particularly when the LCC shows a strong attachment to that airport. Similar to the case of Cebu Pacific-BKK, the business relationship of Cebu Pacific-HKG was also established with the licensing approach. As BKK, HKG also has a well established system and handling of procedures for all airlines. Therefore, there was no negotiation, compromise or particular support for Cebu Pacific. Cebu Pacific had to compromise in following the standard practice of HKG. The major difference between Cebu Pacific-HKG and Cebu Pacific-BKK was that Cebu Pacific took the initiative to increase the number of routes and flight frequencies to HKG from time to time, which showed that Cebu Pacific has a strong unilateral attachment to HKG. As a result, in the case of Cebu Pacific, it is considered as a unilateral attached-institutionalized LCC-airport relationship.

4.5.1. Summary of LCC-airport relationship outcomes

This section summarizes and explains the interaction between LCCs and airports as well as the LCC-airport relationship outcomes. According to their interaction, the cases are categorized into four different types of relationship outcomes which are

solid-strategic-reciprocal relationship, unilateral committed relationship, unilateral attached-institutionalized relationship and loose-institutionalized relationship. These four relationship outcomes represent a different level of relationship strength resulting from the different levels of flexibility, compromise, support and co-operation, within the interaction between LCCs and airports. The AirAsia-MFM and AirAsia-CRK relationships are established with the negotiation approach, while the Cebu Pacific-BKK and Cebu Pacific-HKG relationships are established with the licensing approach. The negotiation approach and licensing approach represent a different level of flexibility. LCCs and airports show a higher degree of flexibility in the negotiation approach and interaction during the growth process of their relationships. The ways in which they compromise, support and co-operate with each other is different from case to case. In the case of AirAsia-MFM, they showed mutual compromise, mutual support, mutual strategic planning and strong mutual attachment. However, in the case of AirAsia-CRK, CRK showed unilateral compromise, unilateral support and unilateral wishful attachment to AirAsia. On the other hand, the nature of the licensing approach implied a very low degree of flexibility in their interaction. Basically, Cebu Pacific only followed the established system and handling procedures of BKK and HKG. They continuously demonstrated a very low degree of flexibility of their interaction in the relationship growth process thereafter. As a result, Cebu Pacific showed unilateral compromise and followed the standard practice of BKK and HKG, while BKK and HKG only interacted with Cebu Pacific mechanically as they did with other airlines. Nonetheless, Cebu Pacific has a loose relationship with BKK, while a unilateral wishful attachment to HKG. The case study findings show that LCCs and airports develop different types of business relationships with different interaction. The

following section analyzes the factors which lead to different interaction, hence different relationship outcomes.

4.6. Factors leading to different interaction and relationship outcomes

The conceptual framework of this research suggested that mutuality (Ford et al., 1986), power imbalance (Pfeffer & Salancik, 2003) and mutual dependence (Casciaro & Piskorski, 2005) would affect the behaviour of interacting parties. The previous section discussed different types of business opportunity, whereby the utilization of airport capacity has an influence on the classification of business opportunity to airports. This section also analyzes and discusses whether the utilization of airport capacity has a continuous influence on LCC-airport interaction. This section also discusses whether and how power imbalance, mutual dependence and mutuality, may affect the development process of LCC-airport business relationships. This section first evaluates the state of power, dependence and mutuality of the cases. Following this, similarities and differences of the business relationship development process under the different status of power, dependence and mutuality, are compared. In addition to the comparison, actions and reactions between the LCCs and airports exemplifying the influences of power, dependence and mutuality on the development process are examined. The case study findings also suggest other factors that may affect the LCC-airport interaction, of which are discussed at the end of this chapter.

4.6.1. Utilization of airport capacity: Inherent dependence Versus Inherent power

The LCC-airport relationship establishment process can be categorized into two main streams. These are the negotiation approach and licensing approach as shown in Figure 4.9 (p.254). Major differences between these two approaches is bargaining, which happens in the negotiation approach, while there is no room for negotiation within the licensing approach. Both AirAsia and Cebu Pacific are LCCs. Therefore, both would look for opportunities to negotiate discounts on airport charges along with operational support in order to minimize their cost. However, negotiations occurred within the two cases involving AirAsia and under-utilized airports, but not in the relationship between Cebu Pacific and level 3 airports (IATA, 2006a). This difference suggests that utilization of airport capacity can be the factor leading to these two opposite approaches.

The case study findings suggest that the behaviour of MFM, CRK, BKK and HKG can be categorized into the dichotomy of a flexible and institutionalized airport. MFM and CRK represent the flexible airport while BKK and HKG are classified as institutionalized airports. Oxford Advanced Learner's English-Chinese Dictionary (1997) defines flexible as "*willing and able to change according to different circumstances.*" This research defines the flexible airport as the airport more willing and able to change its charging system, operational and airline handling procedures, according to the requirements of different types of airlines. The institutionalized airport is defined as the airport having the long established charging system, operational and airlines handling procedures, not willing, nor able, to change its standard and customary practices under any circumstances. By nature, all

government owned and controlled airports should have their own established systems as institutionalized airports. In fact, MFM and CRK also have their own established charging system as well as operational and airline handling procedures as institutionalized airports. However, MFM and CRK showed a willingness to adjust their systems and procedures while BKK and HKG are not. The possible reason for these two opposite attitudes is more likely to be the utilization of their capacity.

BKK and HKG are level 3 airports (IATA, 2006a) with their capacity nearly saturated, while MFM and CRK are under-utilized airports with ample surplus capacity. Under such a situation, MFM and CRK are under more pressure to establish new business relationships with airlines in order to improve their business performance. As a result, MFM and CRK tend to be willing to negotiate and adjust its own practice in order to accommodate new business partners. The status of under-utilization makes MFM and CRK inherently depend on existing and potential business partners. Therefore they have the tendency to make compromises as well as provide support to their counterparts and become flexible airports. Whether or not MFM and CRK are able to influence their airline counterpart to make a similar level of compromise or support, is contingent on to what extent their counterparts depend on them.

In contrast, the business status of BKK and HKG means they do not have such great pressure to establish new business relationships as MFM and CRK. As a result, BKK and HKG do not need to compromise themselves by negotiating with airlines. The status of near saturated capacity indicates that BKK and HKG do not depend on any existing or potential individual airline. Therefore, they handle all airlines

according to their standard practice without making any compromise to any individual airline. On the other hand, they request all airlines adapt to their systems and practices should they wish to operate with them, regardless of their degree of airlines dependence. It appears that BKK and HKG have an inherent power over their potential and existing business partners and are classed as institutionalized airports. The dichotomy of the flexible and institutionalized airport explains why the business relationships of AirAsia-MFM, AirAsia-CRK, Cebu Pacific-BKK and Cebu Pacific-HKG establish a business relationship using two totally different approaches.

From here, the following sections examine the state of power-dependence and mutuality of the four cases, as well as analyze whether and how the LCCs-airports interaction is affected.

4.6.2. Status of power imbalance and mutual dependence

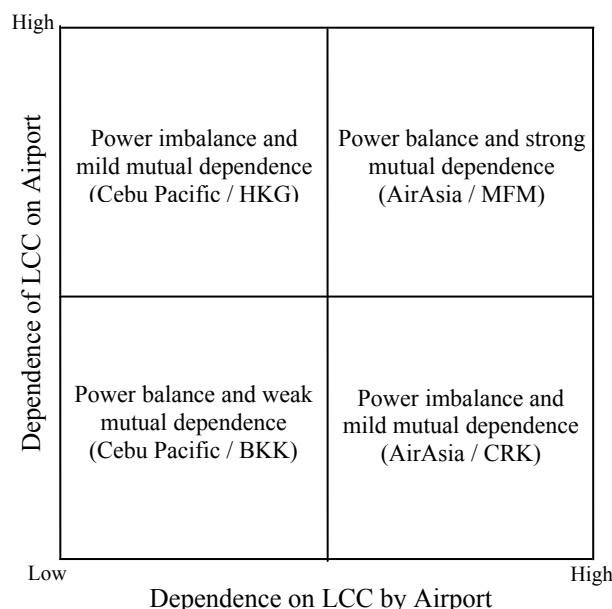


Figure 4.10: Power and Dependence situation of the four cases at the time of conducting the interviews (2008)

Power of one side resides in the other side's dependence (Emerson, 1962). The higher the dependence of the LCC or airport on the other side, the greater power the other side would have. Power imbalance between the LCC and airport is the difference between their dependence. The LCC and airport would have a balanced power relationship if they have the same level of dependence on each other. In contrast, they would have an imbalanced power relationship if they have a different level of dependence. Mutual dependence is the total dependence of the LCC and airport. The LCC and airport would have a high level of mutual dependence if both of them strongly depend on each other. In contrast, they would have a low level of mutual dependence if they have little dependence on each other. The mutual dependence would tend to be mild if only one of them strongly depends on the other.

As discussed in the previous section (case selection and Figure 4.10), the case of AirAsia-MFM represents a balanced power and a high mutual dependence relationship. AirAsia-CRK represents an imbalanced power relationship, while AirAsia has a power advantage over CRK. Cebu Pacific-HKG represents an imbalanced power relationship, while HKG has a power advantage over Cebu Pacific and Cebu Pacific-BKK represents a balanced power but a low mutual dependence relationship. However, their power and dependence situation was according to the status of flight operations at the time of conducting the interviews during 2008. The power and dependence situation during their negotiation stage or notifying stage are not taken into account. In order to examine if power imbalance and mutual dependence affected their interaction during the whole development process of their relationship, this section examines and evaluates the power and dependence situation during their negotiation stage or notifying stage.

According to the Resource Dependence Theory (Pfeffer & Salancik, 2003), dependence is determined by the importance of the resource, discretion over the resource and concentration of resource control. LCCs and airports have no discretion over the resources of each other; therefore this study only considers the importance of the resource and the concentration of resource control in evaluating the dependence.

Importance of the resource was measured by criticality of the resources and the relative magnitude of exchange. Criticality measures the ability of the organization to continue functioning if it cannot obtain the resource (Pfeffer & Salancik, 2003). Airlines and airports are interdependent businesses. They always need each other in order to carry out their function properly. Airlines cannot operate if they cannot find airports to land, while airports are nothing more than open spaces if no airlines are willing to land there. As HKG said in the interview:

“... .. we (airlines and airport) have to be together, and then we can do business. Even if an airport is constructed and decorated wonderfully, it cannot do business without airlines flying there. Even if an airline can provide very good services, it is meaningless if the airport cannot facilitate its operation therefore airlines and airport have to cooperate with each other.”

This point of view extended to the LCC because it is only one type of airline. Therefore, airlines which include the LCC, and airports, are critical to each other. As

a result, the importance of the LCC or the airport to each other would only be evaluated by the relative magnitude of their exchange.

The relative magnitude of an exchange is the proportion of the exchange to the total input or the total output (Pfeffer & Salancik, 2003). The higher the proportion, the more important the exchange. In other words, it can be measured by the benefits that can be achieved by the resources and capabilities of the particular business partner. When the LCC and airport are still at the acquaintance stage, negotiation or notifying stage, there is no actual business exchange. In these stages, the relative magnitude of the exchange therefore cannot be measured by the benefits brought by the actual business exchange. Instead, this research considers the potential benefits that might be brought by LCCs and airports to each other as a substitute measurement. The section on desirability explains that LCCs and airports have a different level of desire in establishing a business relationship with each other, because of the different types of business opportunities. The golden business relationship represents a high potential benefit, while the fill-in business opportunity represents relatively low potential benefits. Emerson (1962) suggested that the stronger the desire, the higher the dependence. Therefore, the stronger desire of the LCC or airport to establish a business relationship with the other side means a higher level of dependence on the other side, and vice versa. When LCCs and airports evaluate the resources and capabilities of each other and make a comparison to their own goals and objectives, the chance of establishing the business relationship is classified into different types of business opportunities. It is a process for them to develop the desire to establish a business relationship with the counterpart. Their desire transforms into dependence when the LCC and airport actually interact with each other.

The level of dependence is also affected by the concentration of resource control which is measured by availability of alternatives (Pfeffer & Salancik, 2003). The more the alternatives, the less one side would depend on the other. This point of view is similar to that of the modulating forces, discussed within the section on desirability. The modulating forces suggest that the desirability of LCCs and airports to establish a business relationship is adjusted by availability of alternatives, attitude of alternatives, feasibility of alternatives and actions of competitors.

When comparing the view of relative magnitude of the exchange and concentration of resource (Pfeffer & Salancik, 2003) with desirability and modulating forces, the research findings suggest that the modulated desirability as shown in Table 4.8 (p. 249) transforms into dependence when LCCs and airports interact with each other. The dependence status of the four cases at the stage of acquaintance, negotiation and notifying is shown as in Figure 4.11.

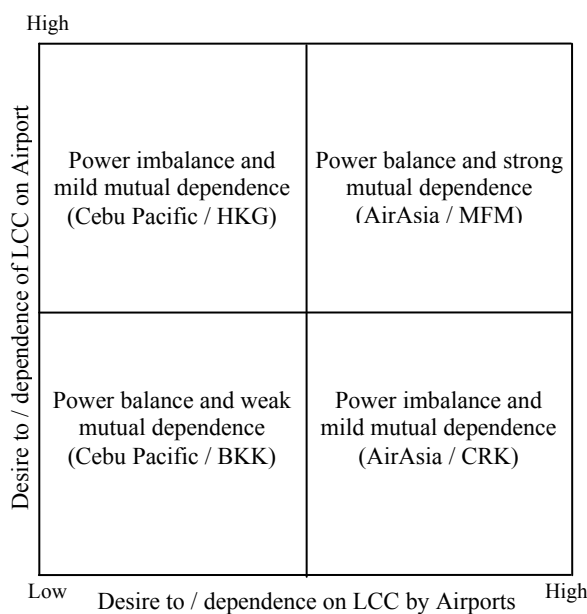


Figure 4.11: Power and Dependence situation of the four cases at the relationship establishment and growth stage

The comparison of

Figure 4.10 and Figure 4.11 reveals that the dependence situation of the four cases remains the same throughout the whole relationship development process. This means that since the very beginning, the power of both AirAsia-MFM and Cebu Pacific-BKK relationships tend to be balanced, while AirAsia-MFM have a strong mutual dependence, but Cebu Pacific-BKK have low mutual dependence. The power of both AirAsia-CRK and Cebu Pacific-HKG relationships are imbalanced, while AirAsia and HKG have power advantages over their counterparts.

4.6.3. Status of mutuality

Mutuality rests on the assumption that interacting parties share common and respective goals or interests at the same time (Ford et al., 1986). A high level of mutuality occurs when both interacting parties place a high value on their common goals or interests. In contrast, a low level of mutuality indicates that their interaction is dominated by the self-interest of either or both parties. Mutuality describes whether the interacting parties value their common interests or self-interests. The interaction between parties is influenced by how the parties value their common and respective goals or interests. The emphasis on common goals and interests of both parties encourages them to give up some of their self-interest for the sake of the counterparts, which ultimately improves their own well-being (Ford et al., 1986, Johnsen & Ford, 2001). This implies that strong mutuality occurs when the well-being of interacting parties rests on the well-being of each other. In other words, their well-being and interests are intertwined. This research study suggests that mutuality is another type of dependence. However, this kind of dependence does not rest on resources and capabilities, but on the well-being and interests of the

counterpart. The situation of intertwined well-being and interests between LCCs and airports is analyzed in the following section.

AirAsia-MFM

In the case of AirAsia-MFM, the interests of MFM, such as airport income, tourism development of Macau, airport development and local economic development, rest on the development of AirAsia at MFM. The more successful AirAsia can be at MFM, the more interest MFM can receive. MFM is a level 2 airport without many operating airlines. Therefore, the development of each and every airline at MFM can make a huge difference. On the other hand, AirAsia wanted to extend its network into Mainland China after its establishment at MFM. The LCC was a rather new concept to Mainland China in 2003 and 2004, and AirAsia aimed to show their operation at MFM as a role model to other attractive airports in Mainland China. More importantly, AirAsia had to show these airports the improvement to the well-being of MFM since the establishment of their business relationship. This was to convince the airports in Mainland China that the LCC could benefit their airports as well as their cities. In this sense, it can be concluded that the well-being of AirAsia and MFM is intertwined.

AirAsia-CRK

In the case of AirAsia-CRK, the interests of CRK, such as airport income, tourism and economic development of Clark, rely upon the success of AirAsia at CRK. The same as in the case of AirAsia-MFM, the more successful AirAsia is at CRK, the more interests CRK can receive. CRK is a level 1 airport. During negotiations with AirAsia, Asiana Airlines was the only passenger airline in operation at that time.

Although the number of passenger airlines increased to five after AirAsia started to fly there, CRK remains as a level 1 airport and being the same as MFM, the development of every single airline counts. On the other hand, the well-being of AirAsia does not seem to rely on the well-being of CRK. Instead, the interests of AirAsia, such as profit, market development in CRK and network development within the ASEAN, depend on its own business strategies and support from CRK. As a result, there is no intertwined well-being found between AirAsia and CRK.

Cebu Pacific-BKK and Cebu Pacific-HKG

The interests of BKK, such as passenger throughput, airport income, tourism development and hub development, and those of HKG, such as hub development and maintenance of competitiveness, rely on the collective well-being of all airlines, rather than on any single airline. The progress of their hub development may rely on the well-being of FSCs more than LCCs. This is because hub traffic is mainly carried by FSCs while LCCs carry mainly point-to-point traffic. Unlike MFM and CRR, BKK and HKG are level 3 airports. BKK has had approximately 180,000-190,000 international aircraft movements (AOT, 2009) per year since 2006. The international aircraft movement of HKG has increased from 174,000 in 2001 to 250,000 in 2008 (Airport Authority Hong Kong, 2009b). Under such a large scale operation, the well-being of BKK and HKG would not be affected by the well-being of any single airline. On the other hand, the interests of Cebu Pacific such as profit, utilization of aircraft and market mining, rely upon its own business strategy and resources as well as capabilities of the airports, rather than the well-being of BKK and HKG. Therefore, intertwined well-being and interests have not been found in the case of Cebu Pacific-BKK and Cebu Pacific-HKG.

4.6.4. Influences of power-dependence and mutuality

Dependence of LCC on Airport	High	<p><u>Case:</u> Cebu Pacific-HKG</p> <p><u>States of mutuality:</u> Non-intertwined well-being and interests</p> <p><u>States of power-dependence:</u> Power imbalance and mild mutual dependence</p> <p><u>Interaction:</u> <ul style="list-style-type: none"> ✓ Unilateral compromise ✓ Mechanical interaction ✓ Unilateral wishful attachment </p> <p><u>Relationship outcome:</u> Unilateral attached-institutionalized relationship</p>	<p><u>Case:</u> AirAsia-MFM</p> <p><u>States of mutuality:</u> Intertwined well-being and interests</p> <p><u>States of power-dependence:</u> Power balance and strong mutual dependence</p> <p><u>Interaction:</u> <ul style="list-style-type: none"> ✓ Mutual compromise ✓ Mutual support ✓ Mutual strategic planning ✓ Strong mutual attachment </p> <p><u>Relationship outcome:</u> Solid strategic-reciprocal relationship</p>
	Low	<p><u>Case:</u> Cebu Pacific-BKK</p> <p><u>States of mutuality:</u> Non-intertwined well-being and interests</p> <p><u>States of power-dependence:</u> Power balance and weak mutual dependence</p> <p><u>Interaction:</u> <ul style="list-style-type: none"> ✓ Unilateral compromise ✓ Mechanical interaction ✓ Loose attachment </p> <p><u>Relationship outcome:</u> Loose-institutionalized relationship</p>	<p><u>Case:</u> AirAsia-CRK</p> <p><u>States of mutuality:</u> Non-intertwined well-being and interests</p> <p><u>States of power-dependence:</u> Power imbalance and mild mutual dependence</p> <p><u>Interaction:</u> <ul style="list-style-type: none"> ✓ Unilateral compromise ✓ Unilateral support ✓ Unilateral wishful attachment </p> <p><u>Relationship outcome:</u> Unilateral committed relationship</p>
	High	Low	High
	Dependence of Airport on LCC		

Figure 4.12 Interaction and relationship outcomes of LCCs and airports under different states of power-dependence and mutuality

Figure 4.12 illustrates the interaction and relationship outcomes of LCCs and airports under various states of power-dependence and mutuality. The matrix portrays the four extreme scenarios of power-dependence between LCCs and airports. The states of mutuality are also presented in the matrix. The influences of power-dependence and mutuality on their interaction and relationship outcomes are discussed case by case in the following section. With the status of balanced power, a strong mutual dependence as well as intertwined well-being and interests, AirAsia and MFM demonstrated mutual compromise, support, strategic planning and strong mutual attachment. They have developed a solid strategic-reciprocal LCC-airport relationship.

In the case of AirAsia-CRK, imbalanced power and mild mutual dependence were found while their well-being and interests were non-intertwined, CRK made unilateral compromise, unilateral support and unilateral wishful attachment to AirAsia. A unilateral committed LCC-airport relationship is formed between them. The balanced power and weak mutual dependence was found in the case of Cebu Pacific-BKK with their well-being and interests being non-intertwined demonstrating unilateral compromise, mechanical interaction and a loose attachment. A loose-institutionalized LCC-Airport relationship is formed between them. With the status of imbalanced power, mild mutual dependence as well as non-intertwined well-being and interests, Cebu Pacific and HKG showed unilateral compromise and mechanical interaction, while Cebu Pacific had a unilateral wishful attachment to HKG. A unilateral attached-institutionalized LCC-Airport relationship is formed between them. The following section analyzes how power-dependence and mutuality can affect the interaction between LCCs and airports as well as their relationship outcomes.

Solid strategic-reciprocal relationship: AirAsia-MFM

In a balanced power-strong mutual dependence relationship and with intertwined well-being and interests as shown in Figure 4.12, both AirAsia and MFM are willing to compromise, provide support, plan business development strategically together and have a strong attachment to each other. Both equally depend on each other, therefore their power is balanced. As a result, none of them are able to dominate the relationship and take advantage of the other. Their mutual requests and responses to requests are fair.

As reported, the interaction between AirAsia and MFM in the relationship establishment and growth stage, produced requests by each other. In response, they compromised and provided support to each other. However, the compromises and support must be equal and mutual. AirAsia and MFM compromised and provided support to each other only if the other side was willing to made equal concessions. In other words, they exchanged compromises and support. As MFM said:

“... .. we (MFM) gave them (AirAsia) incentive package, they must give us back commitment (on long term development)”

while AirAsia said:

“... .. MFM gives us the support that we requested. We shall also meet their requests.”

Their balanced power determines the equality of their exchanges of compromise and support. However, balanced power does not make them willing to compromise and provide support to each other. It is their strong mutual dependence that induces their willingness. Both AirAsia and MFM strongly depend on each other as both have a strong ability to achieve the goals and objectives of each other. As a result, they tend to be willing to accept the requests from each other in order to exchange their required abilities. As MFM suggested:

“The airport wanted market development and passenger volumes while the airline wanted economical conditions to provide low prices to support growing numbers of air travellers.”

AirAsia said:

“... ..we saw the market demand (therefore we were willing to make concession) if we did not enter this market, other airlines would do so.”

MFM knew that AirAsia needed discount on airport charges in order to maintain low fares. MFM was willing to make compromise on airport charges because it needed AirAsia to achieve its goals such as increasing passenger throughput and tourist arrivals. On the other hand, AirAsia was willing to make compromise on long term development because it wanted to enter the LCC market of Macau as well as other parts of the PRDR. Owing to the strong mutual dependence on the abilities of each other, AirAsia and MFM showed mutual willingness to make concessions and provide support to each other.

At the same time, the well-being of AirAsia and MFM as well as interests are intertwined with each other, which means that their well-being and interests depend on the well-being and interests of each other. Under such a situation, the interacting parties tend to be willing to sacrifice themselves for the well-being of the counterpart, and for their own well-being ultimately (Ford et al., 1986; Johnsen & Ford, 2001).

AirAsia said in the interview:

“We (AirAsia) can give MFM passenger flow, then MFM can generate income from passenger flow we can also drive up their economy, with passenger flow, Macau would be prosperous we also want to build up our position in China. If our operation at MFM is successful, Macau is part of China, then we can tell the other airports in China about our operation model, they will know MFM is successful, they could be successful too. It was because they are all in China this is why we keep on increasing our flights, supporting each other. We are on the same boat.”

while MFM said:

“... .. we work very well with each other and we work together towards these goals (routes development and long term relationship).”

The quotations from the interviews exemplify how intertwined well-being and interests can encourage parties to cooperate and support each other. Both AirAsia and MFM indicated their willingness to work with and support each other, in order to help each other achieve their goals and interests as well as improve the well-being and interests of each other. In turn, they could also improve their own well-being and interests. Previous research suggested that mutuality could only be demonstrated over time (Ford et al., 1986; Johnsen & Ford, 2001). However, the case of AirAsia and MFM demonstrates that the influences of mutuality emerge during their negotiations. At the stage of negotiation, AirAsia believed that it could extend its network into Mainland China only if its operation within MFM was successful. On

the other hand, MFM also understood that it could achieve its goals and objectives only if AirAsia's business was successful within MFM. They have demonstrated mutual compromise and mutual support since the negotiation stage. This could be explained by the business nature of LCCs and airports. LCCs are cost conscious and need substantial cost support from airports. The operation of LCCs at airports requires technical and operational cooperation of both LCCs and airports. This cooperation has to be agreed and arranged at the negotiation stage, if not the LCC cannot operate from that airport. This is why the effect of mutuality emerges during the negotiation stage.

The strong mutual dependence, as well as intertwined well-being and interests, indicate that AirAsia and MFM need to start and maintain a stable business relationship with each other in order to ensure a stable supply of resources and capabilities as well as constantly improve their joint well-being and interests. Therefore, both parties are willing to make concessions and provide support to each other in order to keep the other side in the business relationship. On the other hand, in order to ensure a stable supply of resources and capability as well as constantly improve their joint well-being and interests, both design the long term business development plan together strategically. These actions indicate that both have a strong will to stay in the business relationship. Hence they developed a strong attachment to each other. As AirAsia said in the interview:

“... .. we see our relationship as a partnership, instead of users; the airport does not see us as an airport user. Both of us see each other as partners. We want to build our relationship to be a mutual supportive one.”

We and MFM have a long term agreement, both of us want to maintain a partnership with each other. Even if any serious problems come up, it will not turn out that we will give up MFM, MFM will not give up AirAsia either.”

MFM made an analogy between their business relationship and a love relationship by saying:

“Do you think they (AirAsia) will give up Macau? They are enjoying the ambiance, we are enjoying it too. Both of us work together to bring benefits to each other.”

The quotations of AirAsia and MFM suggested that they have a solid business relationship and indicated that both have a strong desire to further develop it. Under the influences of balanced power-strong mutual dependence and mutuality, AirAsia-MFM established a solid strategic-reciprocal LCC-airport relationship.

Unilateral committed relationship: AirAsia-CRK

As shown in Figure 4.12, the business relationship of AirAsia-CRK is developed under the conditions of imbalanced power-mild mutual dependence with non-intertwined well-being and interests. In their relationship, CRK strongly depends on the abilities of AirAsia to achieve its goals and objectives while AirAsia depends less on the ability of CRK. Because of their inequality of dependence, AirAsia enjoys power advantages over CRK. At the same time, their mutual dependence is not as strong as in the case of AirAsia-MFM. Under a power imbalanced status, it appears

that AirAsia dominates the relationship and is able to influence CRK to make compromises and provide support at its request. In contrast, CRK has no power in influencing AirAsia to make compromises and provide support in return. Their imbalanced power determines the inequality of their exchanges of compromise and support. On the other hand, the strong dependence of CRK on the ability of AirAsia explains its willingness to make concessions and provide support. As CRK said:

“... .. it’s difficult to compete for us to attract airlines like this. We use money discount to lower their airport cost.”

“We also talked to the (ground) service provider we told them their charges should be lower than Manila, and lower than Cebu we offered incentives, further discount for one year. We gave them freebies by allowing them an office at the airport for free because we know with budget carrier, we will have multiplier effect, their aircraft keeps on flying and flying as much as they can.”

The quotations suggested that CRK is willing to make compromises and provide support because it depends on AirAsia’s ability to achieve its own goals and objectives. Also, the well-being and interests of CRK and AirAsia are non-intertwined. Instead, the well-being and interests of CRK rely on those of AirAsia.

As an under-utilized airport with very limited operating airlines, the development of CRK relies on the development of AirAsia at CRK. Following the argument of Ford, Hakansson and Johanson (1986) and Johnsen and Ford (2001), CRK tends to be

willing to sacrifice itself for the well-being and interest of AirAsia, and ultimately for its own well-being and interests. CRK said in the interview:

“... .. we sacrificed the airport charges, source of revenue, with the exemption of aero-fee (aeronautical fee), which they earned (benefited) a lot, we sacrificed. But we know it will trade off in the future.”

CRK indicated that it was willing to sacrifice its income and made compromises for the well-being and interests of its own future by helping AirAsia develop at CRK. The case study findings suggest that the imbalanced power and reliance of CRK on the well-being and interests of AirAsia, lead to unilateral compromise and unilateral support from CRK. This means that CRK is the only one in the business relationship willing to make sacrifice in order to keep the other side in the business relationship. Moreover, AirAsia represents a golden business opportunity to CRK. CRK strongly depends on the abilities of AirAsia in achieving its own goals and objectives. CRK shows a strong will to stay in the business relationship while AirAsia, in contrast, did not have the same degree of commitment. As a result, CRK has a unilateral wishful attachment to AirAsia. This was also reflected in the different comments from AirAsia and CRK on their business relationship. When asked for comments on their business development, AirAsia described it as:

“We are satisfied with the current operations at Clark.”

While CRK said:

“Our relationship is very strong we want our relationship to continue, to be stronger.”

AirAsia did not show the same level of enthusiasm regarding the business relationship with CRK when compared to its comments on the business relationship with MFM. Instead, AirAsia showed a rather conservative attitude towards future business development with CRK. On the other hand, CRK emphasized that its business relationship with AirAsia is very strong, which may reflect their large extent of commitment to the business relationship. It therefore showed its aspiration to continuously growing the business relationship. Under the influences of imbalanced power-mild mutual dependence as well as non-intertwined well-being and interests, AirAsia and CRK established a unilateral committed LCC-Airport relationship.

Loose-institutionalized relationship: Cebu Pacific-BKK

Cebu Pacific and BKK have a low dependence on each other. Although their power is balanced, their mutual dependence is weak at the same time. According to the power-dependence theory (Emerson, 1962), none of them should be able to dominate the relationship and none of them should be able to force the other sides to do something which contradicts the desire of the other side. Their requests to each other and responses should be fair. On the other hand, their low dependence should make them have no intention to compromise and provide support to each other.

However, in the interaction between Cebu Pacific and BKK, Cebu Pacific

demonstrates a unilateral compromise to the systems and procedures stipulated by BKK. In contrast, BKK stated clearly that there is no room for negotiation with any individual airline and it handles Cebu Pacific according to its standard practices, which are also applied to all other airlines at the same time. The case study findings reveal that the actions of BKK followed the arguments of Emerson (1962) while those of Cebu Pacific did not. Their interaction may be explained by the high utilization of capacity at BKK. The discussion of utilization of airport capacity suggested that the nearly saturated capacity makes BKK has inherent power over its existing as well as potential business partners; therefore it is considered an institutionalized airport. As Cebu Pacific said in the interview:

“... .. the larger the airport, the less they need you. Quite naturally, the less they are likely to accommodate you.”

As a result, BKK has no intention to compromise itself by negotiating with any individual airlines. Instead, it requires all airlines to follow its systems, procedures and practices. It also responds to the requests of all airlines in a standard way. Therefore, the results are that BKK interacts with all airlines in a mechanical way. However, it cannot explain why Cebu Pacific is as willing to adapt to the practices of BKK. Cebu Pacific has a low dependence on BKK. It would not be willing to compromise the requests from BKK by giving up some of its own interests. Confronted with the standard practices and inherent power of BKK, Cebu Pacific has two choices, to either fly or not to fly.

The willingness of Cebu Pacific to adapt to the practices of BKK may reflect that

BKK is the best available airport. However, owing to the low dependence, Cebu Pacific also suggested that:

“If they (BKK) become too restrictive or too expensive, the only influence is we stop the plane.”

This indicates that Cebu Pacific is willing to adapt to the practice of BKK but by a limited extent only. At the same, this also indicates that Cebu Pacific only has a pessimistic resistance to the inherent power of BKK by not flying there, but it does not have similar power in which to change the behaviour of BKK.

Therefore, Cebu Pacific and BKK have a loose attachment to each other. This can be explained by their low mutual dependence as well as their non-intertwined well-being and interests. Under these circumstances, both Cebu Pacific and BKK will not suffer much by losing this business relationship. Hence, a loose business relationship is formed. It appears that the inherent power of BKK plays a significant role within this relationship. Even though Cebu Pacific has a low dependence on BKK, it cannot resist the inherent power of BKK to change their behaviour. Therefore Cebu Pacific has to abide by the standard practices of BKK unilaterally and follow the mechanical interaction thereby imposed. As a result, a loose-institutionalized LCC-Airport relationship is formed between Cebu Pacific and BKK.

Due to its almost saturated capacity, it is not surprising that BKK acts as an institutionalized airport as it has inherent power over almost all airlines. However, this research study suggests that whenever an airport in Southeast Asia has a low

dependence on the LCC, without intertwined well-being and interests between them, it tends to act as institutionalized, even though it is not a level 3 airport. This is because most airports in Southeast Asia are government owned. As a public service provider, by nature, they have established systems and operate rigidly according to those systems. If they do not depend on LCCs, they would only follow their established systems, therefore acting as institutionalized airports. This means that they tend not to be flexible, not to compromise and not provide any support to LCCs. Therefore, in the case of both LCCs and airports having a low dependence on each with no intertwined well-being and interests, they tend to form loose-institutionalized relationships.

Unilateral attached-institutionalized relationship: Cebu Pacific-HKG

Cebu Pacific has a strong dependence on HKG while HKG only has a weak dependence on Cebu Pacific. As a result, the power between Cebu Pacific and HKG is imbalanced, while HKG has a power advantage over Cebu Pacific. At the same time, their mutual dependence is mild, which is stronger than the relationship between Cebu Pacific and BKK. Under the situation of power imbalance, HKG is able to influence the behaviour of Cebu Pacific. Therefore HKG can request that Cebu Pacific follow its standard practices. In addition, it appears that the inherent power of HKG enables it to request all airlines follow its practices. Therefore, it can apply the same charging system and handling procedures to all airlines. On the other hand, the strong dependence of Cebu Pacific on HKG also makes it willing to follow the practices of HKG, in order to achieve its own goals and objectives using the resources and capabilities of HKG. As Cebu Pacific said in the interview:

“We depend on HKG more than the airport depends on us. They don’t need us to fly to them; we need to fly to them.”

In contrast, HKG only has a low dependence on Cebu Pacific as Cebu Pacific does not have the same level of power to force HKG to make compromise. In addition, their non-intertwined well-being and interests also provide no reason for HKG to change its behaviour for Cebu Pacific. Therefore Cebu Pacific demonstrated unilateral compromise and followed the mechanical interaction guided by HKG. Moreover, Cebu Pacific has a strong dependence on the resources and capabilities of HKG; hence, it shows a unilateral attachment to HKG. As a result, a unilateral attached-institutionalized relationship is formed between them.

The Cebu Pacific-HKG and AirAsia-CRK relationship should be stronger than that of Cebu Pacific-BKK. This is because there is one party in the Cebu Pacific-HKG relationship and AirAsia-CRK is strongly attached to the other, hence the mutual dependence is higher than that of the Cebu Pacific-BKK relationship. Both Cebu Pacific and CRK will suffer much from losing the business relationship with HKG and AirAsia respectively. As a result, they have a strong will to maintain these business relationships. Hence, both LCC-airport relationships are relatively stronger than the Cebu Pacific-BKK relationship.

4.6.4.1. Summary of power-dependence and mutuality

The above discussion and analysis suggests that power balance and imbalance determine the equality and inequality of exchange of compromise and support. The dependence on the counterpart as well as intertwined well-being and interests,

determine the willingness of LCCs and airports to compromise and provide support to each other, and also the strength of their attachment. LCCs and airport would exchange compromise and support equally if they have a balanced relationship, but unequally if they have a imbalanced relationship. LCCs and airports are found to be willing to carry out strategic planning together only if they have a strong mutual dependence as well as intertwined well-being and interests. The degree of mutual dependence as well as intertwined well-being and interests, determines the total strength of the attachment of both parties, hence the strength of the relationships. The case study findings suggest that the strong mutual dependence as well as the existence of intertwined well-being and interests results in a strong mutual attachment, hence a strong relationship. Without intertwined well-being and interests, the strength of relationship is determined by the degree of mutual dependence. When both LCCs and airports have a weak dependence on each other, they have a weak mutual dependence, therefore a weak attachment and a weak relationship. LCC-airport relationships are comparatively stronger if there is at least one party that strongly depends on the other, hence a strong attachment. This relationship is comparatively stronger because at least one party does not want to lose the relationship. As a result, this party will try hard to maintain the business relationship. The strength of the LCC-airport relationship becomes strongest when both parties strongly depend on each other because both parties do not want to lose the business relationship. As a result, both parties will endeavour to maintain the business relationship.

The case study findings revealed that LCCs and airports have different actions and reactions in their relationship development process and form different types of

relationships. The strategies for both LCCs and airports in different types of relationships are suggested in the following section.

4.6.5. Strategies for different types of relationship

Cases	Status of Power-Dependence	Status of Mutuality	Interaction	Relationship Outcomes	Suggested strategies
AirAsia-MFM	Balanced power-Strong mutual dependence	Intertwined well-being and interests	<ul style="list-style-type: none"> ✓ Mutual compromise ✓ Mutual support ✓ Mutual strategic planning ✓ Strong mutual attachment 	Solid strategic-reciprocal relationship	LCCs and Airports: ✓ Maintain and / or Expand
AirAsia-CRK	Imbalanced power-mild mutual dependence (AirAsia had power advantage over CRK)	Non-intertwined well-being and interests	<ul style="list-style-type: none"> ✓ Unilateral compromise ✓ Unilateral support ✓ Unilateral wishful attachment 	Unilateral committed Relationship	LCCs: ✓ Maintain Airports: ✓ Strengthen the capabilities ✓ Diversification
Cebu Pacific-BKK	Balanced power-Weak mutual dependence	Non-intertwined well-being and interests	<ul style="list-style-type: none"> ✓ Unilateral compromise ✓ Mechanical interaction ✓ Loose attachment 	Loose-institutionalized relationship	LCCs: ✓ Search for substitute Airports: ✓ Maintain
Cebu Pacific-HKG	Imbalanced power-mild mutual dependence (HKG had power advantage over Cebu Pacific)	Non-intertwined well-being and interests	<ul style="list-style-type: none"> ✓ Unilateral compromise ✓ Mechanical interaction ✓ Unilateral wishful attachment 	Unilateral attached-institutionalized relationship	LCCs: ✓ Diversification ✓ Destination cultivation Airports: ✓ Maintain

Table 4.11 Strategies under different relationship outcomes

Solid strategic-reciprocal relationship

Strategy for both LCCs and airports: Maintain and / or Expand

In solid strategic-reciprocal relationships, both LCCs and airports are golden business opportunities to each other, which mean that they have an evenly strong ability to achieve the high priority goals and objectives of each other. They also have intertwined well-being and interests. In this case, both of them should maintain or even expand their business relationships. This is because their ultimate well-being and benefit would be improved by exchanging their resources and capabilities continuously.

Unilateral committed relationship

Strategy for LCCs: Maintain

Within a unilateral committed relationship, LCCs would have a power advantage over airports while they do not have jointly intertwined well-being and interests. In this situation, LCCs can take advantage of the airports while the airports need to exercise unilateral compromise and provide unilateral support to LCCs. In order to maximize the stake of the relationship, LCCs should maintain the situation.

Strategies for Airports: Strengthen the capabilities

Within the unilateral committed relationship, LCCs have a power advantage over the airports because airports do not have the strong ability to achieve the high priority goals and objectives of LCCs. In this situation, airports should strengthen their capability in order to gain a more even bargaining power with LCCs. Instead of following the trend and transforming the airport into a budget airport, the airports

should enhance their capabilities strategically in reference to the high priority goals and objectives of LCCs.

Accessibility to the potential demand is viewed by the LCC as the most important capability of the airports. The potential demand can either come from the immediate market or vicinity market. In the case of AirAsia-CRK, CRK does not have a large immediate market within its catchment area. Therefore, CRK cooperates with land transport companies and also negotiates with the Philippine Government to construct a high speed railway to connect CRK to the Metro Manila area. This would enable CRK to enlarge its catchment area and increase its instant market. This, in turn, can strengthen their capability in achieving the goals of not only AirAsia, but also those of other airlines. Hence, it can provide a more balance of power to LCCs.

The airport can also enlarge the potential demand of inbound flights by collaborating with destination marketing departments to develop and promote the catchment area as being a preferred tourism destination. This strategy may be more viable than enlarging the potential demand of outbound flights, because most of the underutilized airports in Southeast Asia are located in cities that have poor economic development. However, robust economic development is a major driving force to the growth of outbound travel. This strategy can hopefully help implement the following strategy, diversification.

Strategy for airports: Diversification

Another considered strategy of airports is diversification. The case of BKK and HKG reveal that almost saturated capacity enables airports to generate inherent

power over all airlines. Although it may not be easy for level 1 or 2 airports to reach saturated capacity, diversification of airlines could be one of the methods. With increasing numbers of alternative business partners, their dependence on one particular LCC will gradually decrease.

Loose institutionalized relationship

Strategy for LCCs: Search for substitute

In the loose institutionalized relationship, both LCCs and airports have a weak ability to achieve the high priority goals and objectives of each other while both of them do not have intertwined well-being and interests. However, these airports have an almost saturated capacity; hence it carries inherent power which can dictate the behaviour of all airlines to follow its practice methods. In this case, LCCs should study and search for substitute airports which can achieve their same goals and objectives. For example, in the case of Cebu Pacific-BKK, Cebu Pacific should study whether there are any substitute airports which can also let them operate fill-in flights in order to maximize their aircraft utilization. In the case of requests by BKK for more compromise by Cebu Pacific, these substitute airports should be viewed as back-ups.

Strategy for airports: Maintain

In the situation of the loose-institutionalized relationship, business relationships with LCCs are not critical to airports as LCCs have a poor ability to achieve the high priority goals and objectives of airport and represent a fill-in business opportunity only. However, LCCs are willing to follow airport practice and bring revenue to those airports, while airports do not have to make any particular extra investment for

LCCs. In this instance; the airports are suggested to be maintaining their existing strategy to LCCs.

Unilateral attached-institutionalized relationship

Strategy for LCCs: Diversification

In the situation of unilateral attached-institutionalized relationships, airports have a strong ability to achieve the high priority goals and objectives of LCCs. However, LCCs have a low ability in achieving those of the airports. At the same time, they do not have intertwined well-being and interests. Therefore, LCCs have to exercise unilateral compromise and have unilateral attachment to the airports. In this situation, LCCs may strengthen their capabilities in order to achieve the high priority goals and objectives of airports or diversify their route to other airports that have similar capabilities. However, as the business partners are level 3 airports, which have inherent power over airlines, the LCCs may not be able to change the situation of unilateral compromise by strengthening their capabilities. Therefore, the strategy of diversification is suggested. With the strategy of diversification, the LCCs may not be able to change the situation of unilateral compromise, due to the inherent power of the level 3 airports. However, the overall business development of LCCs becomes less dependent on one particular level 3 airport. Hopefully, the degree of unilateral attachment to the level 3 airport can be minimized.

Strategy for LCCs: Destination cultivation

As discussed in the above, it is very difficult for LCCs to change the situation of unilateral compromise when the business partner is a level 3 airport. Therefore, LCCs should try to minimize the level of unilateral attachment to any particular level

3 airport. As well as diversifying to other airports that have the existing market, LCCs should search for cities which have potential to be cultivated as preferred destinations. Then the LCCs can collaborate with the destination airports as well as the destination marketing departments to promote those destinations. This strategy is to increase the demand of travelling to those destinations from the base airports of those LCCs. On the one hand, by cultivating different destinations, the overall business development of LCCs is expected to be less dependent on particular airports. On the other hand, the LCCs can develop the capabilities of the airport with them; therefore a strategic partnership is hopefully developed between both parties. This type of relationship is expected to be more manageable as LCCs can also enjoy more bargaining power.

Strategy for Airport: Maintain

Although LCCs have a poor ability to achieve the high priority goals and objectives of airports in the situation of a loose-institutional relationship, airports can still generate revenue from the LCCs. Moreover, LCCs are willing to compromise and follow the practice of the airport. This means that airports do not have to invest more, particularly for LCCs. In this case, airports are suggested to maintain the existing strategy to, and the relationships with, LCCs.

The above strategies are suggested to both LCCs and airports. In a solid strategic-reciprocal relationship, both LCCs and airports are willing to exercise mutual compromise, provide mutual support, generate a strategic plan together and have mutual attachment to each other. In this situation, it is suggested they maintain or expand the relationship. However, in the other three types of relationships, either

LCCs or airports have been found to exercise unilateral compromise, provide unilateral support or unilateral attachment. These suggested strategies are mainly for the disadvantaged party to lower the level of dependence and minimize the level of unilateral attachment. Also, theoretically speaking, dependence as well as intertwined well-being and interests can make both parties willing to provide support and compromise with each other. Therefore, the creation of intertwined well-being and interests could be one of the possible strategies for the disadvantaged party to obtain more balanced compromise and support from the advantaged party. The case of AirAsia and MFM demonstrates how intertwined well-being and interests help to create a more solid and reciprocal relationship. However, they did not intend creating intertwined well-being and interests, instead, it just happened by chance. Therefore, more studies are suggested in the future to research the creation of intertwined well-being between LCCs and airports.

4.6.6. Implications of relationship outcome to capabilities and resources development

Johnsen and Ford (2001, 2002) suggest that asymmetrical relationships between buyers and suppliers in the industrial market can affect development of the capabilities of suppliers. This situation is more explicit in a relationship between one single large buyer and a small or medium sized supplier. This is because the small or medium sized supplier usually has limited resources and capabilities. The supplier usually has to draw on most of its resources in order to produce or even improve the product for the single large buyer. Because of the asymmetrical relationship, the single large buyer can usually direct future development of the small or medium supplier capabilities according to its own product development. Hence, the supplier

tends to further depend on the single large buyer because its capabilities are developed particularly for them, which limits its capability to attract other alternative buyers. On the other hand, if the supplier is able to enhance its production capabilities or further develop unique capabilities for the single large buyers, then the supplier can also prevent its counterpart from having an alternative (Ford et al., 1986). As a result, the small-medium sized supplier is able to change the asymmetrical relationship into a more balanced one with enhanced capabilities. These situations tend to be found in the industrial market, however, the case study findings do not show any evidence to support this point of view within LCC-airport relationships.

AirAsia and MFM establish a solid strategic-reciprocal relationship while AirAsia establishes a unilateral committed relationship with CRK. In both relationships, for the sake of their operation, AirAsia is able to request that MFM and CRK make investments in their airport facilities such as a wireless check-in system and baggage handling system. However, these facilities are not only developed for AirAsia, other LCCs have similar requirements and can use these facilities too. Therefore, through the development of a business relationship with AirAsia, MFM and CRK strengthen their skills and knowledge in the operation of LCCs, whereby they can also be applied to other LCCs. This concludes that the underutilized airports do not face the same problem of developing their capabilities for one particular buyer as those of the small or medium sized suppliers within the industrial market. However, it is questionable as to whether the enhanced skills and knowledge of managing the LCC operation can help airports attract alternative LCCs, or prevent the current LCC business partners from seeking alternative airports, or eventually change the state of

power-dependence and interaction as well as relationship outcomes in the future. It all depends on the importance of the enhanced capabilities to AirAsia, as well as to other LCCs. Both AirAsia and Cebu Pacific suggest in the interview that maximization of profit is their highest priority goal. Both LCCs suggest that the major resource and capability of the airport is to provide access to the potential demand of their air services. The attractiveness to the resource and capability of the airports depends on the volume of potential demand. This is the major difference between suppliers within the industrial market and those of airports. In the industrial market, the ability of the supplier to produce the buyers' product is their major capability. However, in the LCC-airport business relationship, LCCs are not attracted to airports because of the skills and knowledge of handling LCC operations. Instead, the potential demand in the immediate and vicinity market of airports is the major resource and capability that LCCs require. Therefore, if the business relationship with AirAsia can enlarge the size of the potential market for both MFM and CRK, then the capabilities of the airports are enhanced. This can, in turn, affect the state of power-dependence, interaction and relationship outcome for the future. However, the potential demand in the immediate and vicinity market of MFM and CRK is rather affected by local economy development, destination development and the accessibility to the vicinity market, but not by the relationship outcome with AirAsia. Therefore, even though MFM and CRK enhance their ability to handle LCC operations, this ability cannot change the state of power-dependence between AirAsia and them. This is because this is not the capability that can achieve the high priority goals and objectives of AirAsia.

On the other hand, Cebu Pacific has imbalanced power relationships with BKK and HKG. The major resource and capability that BKK and HKG require of LCCs and other airlines is to increase passenger throughput and hub traffic of airports. The ability to increase passenger throughput can be improved if Cebu Pacific increases its flight frequency to BKK and HKG. However, the decision to increase flight frequency always depends on the demand of flying to and from those destination airports, rather than the relationship outcomes with those airports. Moreover, as all other LCCs, Cebu Pacific operates point to point flights only. The point to point operation cannot increase the hub traffic of BKK and HKG. Whether or not Cebu Pacific would expand its operation to include hub-and-spoke traffic really depends on the strategic planning of Cebu Pacific, rather than business relationships with BKK and HKG. Therefore, the relationship outcome is found to have no influence on the capability development of LCCs and airports.

4.6.7. Implication of relationship outcome to future interaction

Although the current relationship outcomes are not able to change the capability development of LCCs and airports, it still has implications on future interaction. AirAsia suggests in the interview that:

“Our contract is 10 years A place where we spend 10 years already; of course we want to develop further business. Just the same as if you have a boyfriend for 10 years, you want to go on with him too. It is because if we have already spent our time and resources in an airport for 10 years, of course we want to develop this airport into a big one (market).”

MFM states in the interview that:

“We also want to build up a strategic relationship with themgrow business together The contract is 10 years. And I believe that we will renew it.”

Cebu Pacific claims in the interview that:

“A network planner will always look for an alternative that will be more flexible and more economic viable. They (BKK) are not LCC friendly airport, if there is suddenly an alternative, we may shift to, for example, like Singapore, they are very friendly towards LCC.”

BKK states in the interview that:

“We have no contract. We don’t have any contract with any airlines We never have any contract with any airlines. They (Airlines) can come to Thailand for only 3 months or 3 years (example only). And then after that, we consider if they (airlines) can continue flying to Thailand If they (airlines) want to cancel, just notice us a few months or 6 months before that they want to cancel their flights to Bangkok (For the case of Cebu Pacific) If they (Cebu Pacific) would like to increase their flights, we have to see them more often... ..”

According to the quotations, AirAsia and MFM show enthusiasm towards future development of their business relationship, while Cebu Pacific and BKK do not show

the same attitude. Their totally different attitude towards future development of their business relationships could be the result of their current relationship outcomes.

AirAsia and MFM developed a solid strategic-reciprocal relationship. Both implied in the interview that they want to continue to expand their business together after the 10-year contract. This implies that they would continue to commit to the business relationship, providing support to each other and solving problems together through negotiation and compromise. The solid strategic-reciprocal relationship is reflected in their 10-year contract. This 10-year contract requires heavy investment from both AirAsia and MFM and acts as a bonding to them. The investment into the current relationship creates a very strong reason for their enthusiasm to stay within and keep each other within the relationship long term. Due to the enthusiasm, it is believed that future interaction between AirAsia and MFM would follow the current pattern and they would continue to maintain a solid strategic-reciprocal relationship. This implies that their relationship would not be easily broken in the future.

On the other hand, Cebu Pacific and BKK have a loose-institutionalized relationship. Cebu Pacific suggests that it may choose to quit the business relationship with BKK if better alternative airports become available. BKK, as a service provider, does not show any enthusiasm to retain the business relationship with Cebu Pacific. Their loose relationship does not provide them any grounds to have enthusiasm for staying within and keep each other within the relationship. Their future interaction would probably follow the current pattern while their business relationship would continue to be a loose one. This implies that their relationship may easily be broken at some time during the future.

According to the above discussion, it is believed that the current relationship outcomes would affect the enthusiasm of LCCs and airports to stay within and keep each other within the relationship. Their attitude would in turn affect their interaction as well as the relationship outcome some time during the future. It should be noted that their interaction and relationship outcomes in the future are also continuously affected by their state of power-dependence and mutuality. If the state of their power-dependence and mutuality remain unchanged, then their current relationship outcome would determine their attitude, hence their interaction and relationship outcome in the future. This means that their relationship development process is actually a loop in that their current interaction determines their current relationship outcome, which would in turn affect the attitude of LCCs and airports towards their future relationship development, hence their future interaction and relationship outcomes are influenced. Along with the life of their relationships, this loop runs continuously while their state of power-dependence and mutuality continue to also affect their interaction.

4.6.8. Other factors affecting LCC-airport interaction

The case study findings suggest that government attitude, ground parties and media are the other factors that may affect the interaction between LCCs and airports. Government attitude comes into effect when flexible airports need government approval on airport discounts and incentive programs. It appears that government attitude has a bigger influence on flexible airports but is not important to institutionalized airports. Ground parties may create obstacles to the relationship establishment between LCCs and airports if they are not willing to be supportive in

terms of costs and operation to LCCs. Media plays a surveillance role which limits the freedom of airports in offering privileges to LCCs.

4.6.8.1. Government attitude

In the section covering pre-requisite constraints, government attitude has already been discussed and is believed to not be one of the pre-requisite constraints. Instead, it may ease the pre-requisite constraints. It also affects the business relationship development between LCCs and airports when they need to negotiate airport discounts and incentives. The influence of government attitude is particularly explicit in the case of AirAsia-MFM. AirAsia indicated that the Macau SAR Government has a supportive attitude towards the development of LCCs. Therefore, the government approved the airport discounts and incentive packages. MFM suggested in the interview that:

“Our incentives (and discount program) were defined and agreed with the airline and (needed to be) approved by the Government as the system for all the LCCs which are willing to operate at MFM.”

Both MFM and CRK are flexible airports and willing to offer discounts and incentives to LCCs. In the case of MFM, it requires government approval in order to offer airport discounts and incentive programs to LCCs. The supportive government attitude helped them obtain the said government approval. In the case of CRK, they have the autonomy to decide their airport discounts and provide any special support to LCCs. Therefore, when it is the case that the airport needs government approval for airport discounts and incentives in order to attract foreign LCCs, government

attitude towards the development of foreign LCCs becomes a critical influencing factor to the negotiations between foreign LCCs and airports. AirAsia confirmed that costs are one of the major topics within the negotiations. Negotiations between AirAsia and MFM may go into deadlock as AirAsia and HKG, should the Macau SAR government not approve the airport discounts and incentives.

4.6.8.2. Ground parties

As well as airports, LCCs have to cooperate with various ground parties such as ground handling companies and refuelling companies to provide flight services. LCCs need their support in terms of cost and operation in order to maintain low costs and achieve fast turnaround. MFM suggested in the interview:

“... .. if we give AirAsia a very good incentive package, but ground handling (companies) does not support, they charge AirAsia expensively, or if NKOIL (Nam Kwong Petroleum & Chemicals Co., Ltd.) does not show supportive attitude, they don't care if they (AirAsia) come or not, if AirAsia feels they are not supportive, AirAsia will go away cost is their centre. Cost is the most important issue. If finally they (AirAsia) find that the cost is not sustainable, they will definitely go away.”

MFM stated clearly that a good airport package on its own is not enough. Costs and operational support from ground handling companies are also critical to AirAsia. AirAsia also indicated that it had concerns regarding costs and operational support provided by ground handling companies as well as refuelling companies in its negotiations with airports. This indicates that ground parties can create obstacles to

the establishment of a business relationship between LCCs and airports. MFM and CRK proactively requested ground parties to cooperate and accommodate AirAsia. This is because AirAsia may not establish a business relationship with MFM and CRK if ground parties do not also co-operate and provide support to AirAsia. AirAsia also revealed that one particular request to MFM was the coordination of ground parties by the airport in order to ensure a smooth ground handling process. If ground parties are not willing to cooperate with and accommodate LCCs, the establishment and development of LCC-airport relationships would be influenced. Therefore the attitude and actions of ground parties are considered to have an influence on the interaction between LCCs and airports.

4.6.8.3. Media

Surveillance is one of the functions of media. Interviews with a former executive of MFM and with BKK reveal that airports need to consider media when they handle requests from airlines. A former executive of MFM suggested in the interview that:

“Charges were the most difficult topics. It was very difficult for airports to make concession on charges ... there was pressure from media. Everybody in Macau knew that AirAsia was coming to Macau, the media would make noise, and there is no way that MFM can avoid the media. Therefore negotiation on charges is the most difficult part.”

while BKK said:

“... .. there are a lot of domestic LCCs in Thailand... .. they prefer to have some privileges compared to foreign carriers which are low cost also. For example, One-two-go they said hey, you got to support Thai owned company, rather than foreign company. If these things are considered as obstacles, I think they can be. Because they can voice to the media: the airport support foreign company, not ThaiSo the policy that we treat airlines different from one and other, it will not happen, definitely not.”

As indicated in the above quotations, MFM and BKK suggest that airports have to consider the reactions of the media when they decide what to offer and what not to offer LCCs. The former executive of MFM indicates that media is one of the factors limiting MFM in giving significant privileges to AirAsia, even though MFM has a strong desire to establish the business relationship. On the other hand, BKK also suggests that surveillance by the media is one of the reasons why it has the policy of equal treatment to all airlines. If the media discovers that there is any unfair concession made by MFM or inequality of treatment made by BKK, they would censure MFM and BKK immediately. As a result, surveillance by media creates pressure upon airports when they are interacting with LCCs, hence the interaction between LCCs and airports are influenced.

4.7. Theory of LCC-Airport Relationship Development Process

Figure 4.13 (p.345) illustrates the theory of the LCC–airport relationship development process which highlights the prerequisite constraints, the factors affecting the establishment and development of a business relationship between LCCs and airports. This theory provides an overall picture to scholars and industry practitioners regarding the development process of LCC-airport relationships. It covers what pre-requisite constraints that LCCs and airports would face, the reasons as to why LCCs and airports have the desire to establish a business relationship with each other, how they evaluate each other as a business opportunity, how they establish a business relationship, what factors influence their interaction with each other, how their inter-desirability of establishing a business relationship with each other affects their interaction through influencing their state of power-dependence, and how different types of LCC-airport relationship outcomes are formed.

Based on the literature review, this research suggests a preliminary conceptual framework as shown in Figure 2.7 (p.107). The case study findings suggest that the development process of LCC-airport relationships consist of three stages. These are the pre-relationship stage, relationship establishment and growth stage as well as relationship outcomes. However, the diagram of conceptual framework cannot clearly present the different stages of the whole development process, so the theory illustration is modified into Figure 4.13 which can show all stages of the process.

Stage 1: The pre-relationship stage

The pre-requisite constraints

The pre-relationship stage includes pre-requisite constraints and inter-desirability between LCCs and airports. The pre-requisite constraints set the boundaries which limits the freedom of LCCs and airports in establishing a business relationship with each other, while the inter-desirability explains why LCCs and airports want to establish the business relationships with each other. The second stage is that of the relationship establishment and growth, while the third stage is relationship outcomes. These two stages present the factors affecting interaction between LCCs and airports; hence various types of relationship outcomes are formed.

In comparison to the conceptual framework (Figure 2.7), the contents of the pre-requisite constraints are enriched and further consolidated into two types of constraints as shown in Figure 4.13, which are legal-institutional constraints and resource constraints. The legal-institutional constraints include international aviation regulations, BASAs or MASAs, also aviation policy and regulations of individual countries. Resource constraints refer to availability of airport slots as well as availability and suitability of aircraft. The airport slot and aircraft are found to be the most critical resources to enable the completion of exchange. LCCs and airports are qualified as possible business partners if they comply with the legal-institutional requirements and also have suitable resources to exchange. In other words, pre-requisite constraints act as a boundary which disallows the unqualified LCCs and airports to establish a business relationship with each other. Moreover, as shown in Figure 4.13, the pre-requisite constraints construct the outer layer which frames the whole diagram. This indicates that the pre-requisite constraints continuously frame

the whole development process of LCC-airport relationships, as long as they maintain a business relationship with each other. LCCs and airports have to comply with international and local aviation regulations, BASAs or MASAs, as well as the aviation policy of individual governments. They also have to maintain the availability of suitable resources for exchange if they want to continue their business relationships.

The research findings suggested that pre-requisite constraints can be influenced by the local carrier and government attitude. Local carriers are considered obstruction creators in the establishment of LCC-airport relationships through influencing the pre-requisite constraints. Local carriers can create impediments by raising objections to the licensing body regarding emergence of LCCs, or they can limit the chance of airports establishing a business relationships with LCCs by affecting the allocation of airport slots. The literature review suggested that government attitude may be one of the pre-requisite constraints (Kua & Baum, 2004). However, this research found no evidence to support this point of view. Instead, this research found that LCCs and airports can still have the freedom to establish a business relationship with each other, even if governments hold an unsupportive attitude towards the development of foreign LCCs. This is the fact, providing both LCCs and airports comply with all rules and regulations. At the same time, government attitude is found to be able to influence pre-requisite constraints and in turn affect the interaction between LCCs and airports. This is because a supportive government attitude can ease the legal-institutional constraints in a subtle way, therefore increasing the chances of airports to establish business relationships with LCCs by approving airport discounts and incentive programs.

Inter-desirability

LCCs and airports can be considered as possible qualified business partners after they overcome the pre-requisite constraints. However, there may be a number of possible qualified business partners in the market. This does not mean that LCCs and airports would have the desire to establish business relationships with all possible qualified business partners. The conceptual framework (Figure 2.7) has suggested that LCCs and airports may consider their own goals and objectives as well as the resources and capabilities of counterparts simultaneously, in the process of locating suitable business partners. The research findings confirm this point of view and further suggest that different LCCs and airports have different priorities in their goals and objectives, while their resources and capabilities determine their ability to achieve the goals and objectives of each other. The priority of their goals and objectives, together with the ability of the potential business partners to achieve their high or low priority goals and objectives, will form different types of business opportunities (Figure 4.6, p.226). This research study incorporates this newly developed concept into the theory of the development process of LCC-airport relationships (Figure 4.13), in order to explain their desire to establish a business relationship with each other.

The research study suggests that various types of business opportunities lead LCCs and airports to have a different level of desire in establishing a business relationship with each other. The case study findings suggest that the chance of establishing a business relationship with a potential business partner is a golden business opportunity to LCCs or airports if the potential business partner has a strong ability to achieve the high priority goals and objectives of those LCCs or airports. It is a

fill-in business opportunity to LCCs or airports if the potential business partner has a low ability to achieve the high priority goals and objectives of LCCs or airports, or if the potential business partner has a strong ability to achieve the low priority goals and objectives of LCCs or airports. The chance is viewed as a no value business opportunity to LCCs or airports if the potential business partner has a low ability to achieve the low priority goals and objectives of those LCCs and airports. LCCs and airports would have a strong desire to establish a business relationship with the potential business partner if the chance is a golden business opportunity, or a weak desire if the chance is a fill-in business opportunity. LCCs and airports would have no desire to establish a business relationship with the potential business partner if the chance is a no value business opportunity. The case study findings suggest that the utilization of airport capacity affects the perspective of the airport on the business opportunity to establish a relationship with LCCs. The near saturated airports normally consider the chance of establishing business relationships with LCCs as fill-in business opportunities, while under-utilized airports normally view LCCs as golden business opportunities.

As shown in Figure 4.13, this research study also introduced a new external force, the modulating force, which has not been considered within the conceptual framework. The modulating force which operates in the external environment and is beyond the control of LCCs and airports includes attitude, availability and feasibility of alternative LCCs and airports, as well as actions of competitors. The modulating force has the function to weaken or reinforce the desire of LCCs and airports in establishing a business relationship with each other.

Therefore, this research suggests that the desirability of LCCs and airports to establish a business relationship is determined by the types of business opportunities they represent to each other and the modulating force from the external environment.

The establishment of a business relationship is not a one-sided issue; therefore, both the desire of LCCs and airports to establish a business relationship with each other should be taken into account simultaneously. As a result, the new concept of inter-desirability between LCCs and airports is incorporated into the theory of the LCC-airport relationship development process (Figure 4.13). This newly introduced concept, inter-desirability, is able to explain the possibilities of establishing business relationships between LCCs and airports. The business relationship would only be established when both LCCs and airports have a strong or at least a weak desire towards each other. The possibility of establishing the LCC-airport relationships would be very marginal if one or both parties have no desire to establish the business relationship. If both LCCs and airports have the desire to establish the business relationship, they would then enter the second stage, the relationship establishment and growth stage. LCCs and airports have much interaction with each other at this stage which shapes their relationship outcomes in the third stage.

Stage 2: Relationship establishment and growth stage

As illustrated in Figure 4.13, this research study found that power-dependence (Casciaro & Piskorski, 2005; Emerson, 1962; Pfeffer & Salancik, 2003), mutuality (Ford et al., 1986) and the utilization of airport capacity are the factors affecting interaction between LCCs and airports. This interaction is composed of their attitudes, actions and reactions.

The research findings suggest that the utilization of airport capacity can bring inherent power or inherent dependence to airports and has an influence on their attitude, actions and reactions, which basically determines the LCC-airport relationship establishment approach. The near saturated airports have inherent power over LCCs and normally act as institutionalized airports adopting the licensing approach. This approach has the least flexibility in the procedures of handling airline. The under-utilized airports have inherent dependence on LCCs and normally act as flexible airports adopting the negotiation approach which has a certain degree of flexibility in airport charges and airline handling procedures.

The findings and discussions suggest that the inter-desirability of LCCs and airports for each other as business partners continuously influences the establishment and growth stage of their relationships. The inter-desirability of LCCs and airports indicates their level of dependence on each other which determines the state of power imbalance and mutual dependence between them as shown in Figure 4.13. Their state of power imbalance and mutual dependence has been found to influence their interaction simultaneously but in different ways. The state of power imbalance determines the equality or inequality in the exchange of compromise and support between LCCs and airports. The state of mutual dependence determines the willingness of LCCs and airports to make compromises and provide support. The case studies reveal that the more powerful party in an imbalanced power relationship will exert influence on the behaviour of the power disadvantaged party, either the LCC or airport, and make them exercise unilateral compromise and unilateral support. On the other hand, it is found that balanced power with a strong mutual dependence leads both LCCs and airports to be willing in making mutual

compromises and supporting each other. In contrast, balanced power with weak mutual dependence leads both LCCs and airport to be unwilling in making compromises or providing support to each other.

However, the case of Cebu Pacific-BKK revealed that Cebu Pacific made unilateral compromise to BKK even though they were in the state of balanced power and weak mutual dependence. The findings suggest that the reason may be capacity utilization of BKK. As discussed above, the utilization of airport capacity may determine whether airports have inherent power over, or inherent dependence on, LCCs. BKK and HKG, as airports with near saturated capacity, carry inherent power because their business status means that they do not depend on any individual airline. It appears that they have absolute power over all airlines. It is believed that this inherent power influences their behaviour. The cases of BKK and HKG reveal that inherent power leads them to become institutionalized airports with the least flexibility in their charging system and handling procedures. Because of the inherent power, BKK is able to require all airlines, including Cebu Pacific, to follow its systems and standard practices, even though Cebu Pacific has the least dependence on BKK and also a balanced power relationship with them. This case suggests that inherent power gives BKK a predominant position within business relationships with airlines regardless of the dependence level of those airlines. Because of inherent power, the case of Cebu Pacific-BKK did not follow the expected interaction.

The case studies also suggest that mutual dependence and mutuality do not only influence the interacting process between LCCs and airports, but also determines the strength of LCC-airport relationships. Results show that strong mutual dependence

and intertwined well-being and interests lead to a strong relationship, as both parties are willing to plan long term development strategically together and are strongly attached to each other. In contrast, weak mutual dependence with non-intertwined well-being and interests lead to a loose relationship. In addition, this research also found that intertwined well-being and interests tend to make LCCs and airports compromise and provide support to each other in order to maintain the business relationship.

Stage 3: Relationship outcomes

Under different states of power-dependence, the state of mutuality and airport utilization, the case study findings suggested four types of relationship outcomes. These are the solid strategic-reciprocal relationship, unilateral committed relationship, loose-institutional relationship and unilateral attached-institutionalized relationship. Under the situation of balanced power, strong mutual dependence with intertwined well-being and interests and low airport utilization, the LCC and airport are found to be willing to exercise mutual compromise, mutual support, mutual strategic planning and have strong mutual attachment; hence they form a solid strategic reciprocal relationship. Under the situation of imbalanced power, while the LCC has a power advantage over the airport without intertwined well-being and interests and low airport utilization, the airport is found to be willing to exercise unilateral compromise, unilateral support and have unilateral wishful attachment to the LCC; hence they form a unilateral committed relationship. Under the situation of balanced power, weak mutual dependence without intertwined well-being and interests and high airport utilization, the airport is found to handle all airlines mechanically, while the LCC has to follow the practice of the airport and exercise unilateral compromise and

mechanical interaction as long as it wants to fly to that airport. But they have a loose attachment to each other; hence they form a loose-institutionalized relationship. Under the situation of imbalanced power, while the airport has a power advantage over the LCC without intertwined well-being and interests and high airport utilization, the airport is again found to handle all airlines mechanically. On the other hand, the LCC is found to have a unilateral wishful attachment towards the airport, is willing to exercise unilateral compromise and follow the mechanical practice of the airport; hence they form a unilateral attached-institutionalized relationship.

The loop of relationship development

The literature review suggested that business relationship outcomes have influences on the development of supplier's capabilities (Johnsen & Ford, 2001, 2002) which is incorporated into the conceptual framework (Figure 2.7). However, the case study findings suggest that business relationship outcomes do not help airports as service providers, enhance their capabilities. Instead, as shown in Figure 4.13, the case study findings suggest that current relationship outcomes determine the attitude of LCCs and airports towards future relationship development, hence their interaction and relationship outcomes in the future are affected, provided their state of power-dependence and mutuality remain unchanged. However, should either one or both LCCs and airports change their goals and objectives or enhance or weaken their resources and capabilities, their state of power-dependence and mutuality would be changed, hence their attitudes, interaction and relationship outcomes in the future would also be changed.

This research study suggests that the LCC-airport relationship development process presents a loop whereby current interaction determines current relationship outcomes, which would in turn affect their attitude towards relationship development in the future; hence their future interaction as well as their future relationship outcomes would also be affected. Throughout the life of LCC-airport relationships, the state of power-dependence and mutuality would affect their interaction continuously; hence their relationship outcomes.

Other factors

Other factors include government attitude, media and ground parties. The influence of government attitude does not cover the pre-requisite constraints only, but the relationship development also. The case of AirAsia-MFM revealed that flexible airports may need the government approval to discount on airport charges and incentive program. The supportive government attitude ensures a higher chance to obtain such the approval. The cases studies also suggest that media and ground parties come into effect in the relationship establishment and growth stage and influence the interaction between LCCs and airports. As suggested by MFM and BKK, media can limit the freedom of airports to offer discounts or incentives to LCCs by performing its duty of surveillance, by monitoring the negotiations as well as the interaction between LCCs and airports, to ensure the airports have not given excessive privileges to foreign LCCs. As well as support from airports, LCCs also need a great deal of support from ground parties. This is because the ground handling service for LCCs is not provided by airports, but by the ground parties themselves. Ground parties can directly affect whether LCCs can carry out ground operations smoothly at a low cost, which in turn influences the survival of LCCs at

airports, hence the business relationship between LCCs and airports. The influence of ground parties is particularly manifested when there is only one sole airport ground handling company. For the sake of the business relationship with LCCs, MFM and CRK have been found to take the initiative in helping LCCs negotiate with ground parties in obtaining lower fees. The cases also reveal that LCCs request airports to act as coordinators between them and the ground parties in order to ensure the ground operations of their flights can be carried out smoothly. Therefore, the interaction between LCCs and airports is also affected by the attitudes and actions of ground parties.

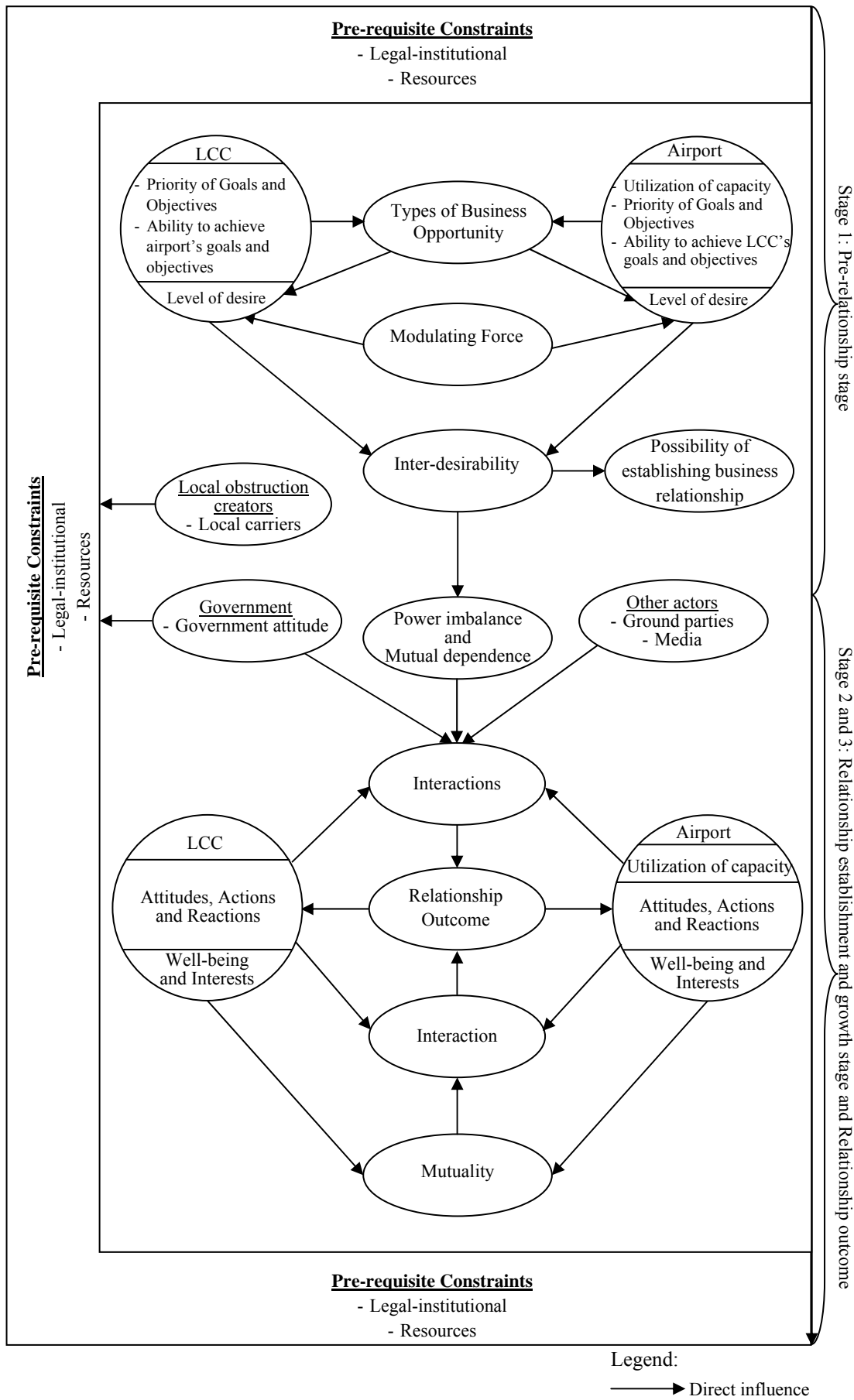


Figure 4.13: Theory of LCC-Airport Relationship Development Process

CHAPTER 5. Conclusion

LCC is a rather new airline model in Southeast Asia because their business model and behaviour is totally different to those of the FSC. Unlike the business relationships between FSCs and airports, the LCC-airport business relationships are not government-to-government relationships. Instead, most of them are commercial-to-government relationships. Therefore, knowledge of the FSCs-airport relationship cannot be applied to the LCC-airport relationship. In order to fill-in this research gap and make a contribution to the strategic management of LCC-airport business relationships, this research aims to produce an in depth study of the perspectives and actions taken by LCCs and airports when they develop a business relationship with each other, by asking the fundamental questions of why and how they develop a business relationship with each other. The fundamental questions require this research to have an in-depth understanding of why and how LCCs and airports interact with each other, as well as why they take such action during the process of developing their business relationships. This requirement of in-depth information naturally leads this study to adopt a qualitative research approach. A multiple case study method was used to examine the interaction episodes (Brennan et al., 2003; Dwyer et al., 1987; Ford, 1980; Ford et al., 1986; Hakansson & Snehota, 1995; IMP Group, 1982; Johnsen & Ford, 2001) of the development of LCC-airport relationships. In order to guide the study to achieve the main purpose, to answer the fundamental questions, five research questions were asked in Chapter 1. All five research questions are answered in the following list with question four and five being discussed together. These are followed by the section relating to the significance as well as recommendations.

1. What are the pre-requisite constraints that restrict the freedom of LCCs and airports to start a business relationship with each other?
2. Why do LCCs and airports want to establish a relationship with each other?
3. How do LCCs and airports develop a relationship?
4. What are the factors affecting the development of LCC-airport relationships?
5. How do these factors affect the development of LCC-airport relationships?

5.1. *Re-visit the research questions*

1. *What are the pre-requisite constraints that restrict the freedom of LCCs and airports to start a business relationship with each other?*

LCCs and airports cannot establish a business relationship with each other according to their own desire. This research study confirmed that international aviation regulations (Gidwitz, 1980), BASAs and MASAs (Hooper, 2005), government aviation policy (Forsyth et al., 2006) and regulations of individual countries constitute legal-institutional constraints, while the availability and suitability of resources form resource constraints. The legal-institutional constraints together with resource constraints compose the pre-requisite constraints which restrict the freedom of LCCs and airports to start a business relationship with each other. In addition, these pre-requisite constraints are found not only to restrict the freedom of LCCs and airports to establish a business relationship, but also continuously limit future development of that business relationship. Therefore, LCC-airport relationships would be developed within the framework constructed by legal-institutional constraints and resource constraints.

There is no evidence to support the fact that unwelcome government attitudes constitute part of the pre-requisite constraints. Instead, supportive government attitudes could ease the pre-requisite constraints by making smooth the licensing process. On the other hand, local flag airlines have been found to create impediments to the establishment of LCC-airport business relationships by influencing the licensing process or slot allocation. The influence of government attitudes and local carriers are also expected to continuously influence the development of LCC-airport relationships whenever they intend to expand it. The research findings suggest a concluded outcome regarding pre-requisite constraints as follows.

Concluded outcome 1: Pre-requisite constraints which include legal-institutional and resource constraints, do not only restrict the freedom of LCCs and airports in establishing a business relationship with each other, but also continuously confines the future development of it.

2. Why do LCCs and airports want to establish a relationship with each other?

LCCs and airports can become potential business partners to each other if both can pass through the boundary constructed by pre-requisite constraints. From there, the following question would be the selection criteria of LCCs and airports when choosing each other as suitable business partners. The findings from this research are consistent with currently available literature (Ford et al., 1986; Pfeffer & Salancik, 2003) and confirm that the goals and objectives, as well as resources and capabilities of LCCs and airports would lead them to establish a business relationship.

LCCs and airports would have high and low priority goals and objectives while they also have a strong or weak ability in achieving the goals and objectives of each other. The chance to establish a business relationship with a potential business partner would be a golden business opportunity if the potential business partner has a strong ability to achieve the high priority goals and objectives of LCCs or airports. Hence the LCCs and airports would have a strong desire to establish a business relationship with each other. The chance to establish a business relationship with a potential business partner would be a fill-in business opportunity if the potential business partner has a weak ability to achieve the high priority goals and objectives of LCCs or airports, or if the potential business partner has a high ability to achieve the low priority goals and objectives of LCCs or airports. Then the LCCs and airports would have a weak desire in establishing a business relationship with the potential business partner. The chance to establish a business relationship with a potential business partner would be a no value business opportunity if the potential business partner only has a weak or no ability in achieving the low priority goals and objectives of LCCs and airports. In this case, the LCCs and airports would have no desire to establish a business relationship with the potential business partner. The findings and discussions of various types of business opportunities and different levels of desirability lead to the following concluded outcomes.

Concluded outcome 2: Priority of the goals and objectives of LCCs and airports and their potential ability to achieve the goals and objectives of the potential business partners, classify the potential business relationship into different types of business opportunities. These, in turn, affect the desire of LCCs and airports in establishing a business relationship.

Concluded outcome 2a: The LCCs and airports would have a strong desire to establish a business relationship if it is a golden business opportunity when the potential business partners have a strong ability to achieve the high priority goals and objectives of LCCs and airports.

Concluded outcome 2b: The LCCs and airports will have a weak desire to establish a business relationship if it is a fill-in business opportunity when the potential business partners have a weak ability to achieve the high priority goals and objectives of LCCs and airports, or when the potential business partner has a strong ability to achieve the low priority goals and objectives of LCCs and airports.

Concluded outcome 2c: The LCCs and airports will have no desire to establish a business relationship if it is a no value business opportunity when potential business partners have a weak ability to achieve the low priority goals and objectives of LCCs and airports.

The establishment of a business relationship is a two-sided issue which involves both LCCs and airports. Therefore, the inter-desirability of LCCs and airports should be considered. The business relationships can only be established when both LCCs and airports have desire to the other side. In contrast, if both or either LCCs or airports have no desire, then the possibility of the business relationship being established is very marginal. Therefore, one concluded outcome is proposed.

Concluded outcome 3: The business relationship will not be established if either one or both LCCs and airports do not have desire to the other side.

In addition, this research study found that external factors can form modulating forces such as attitudes and availability of alternative airports, availability and feasibility of alternative LCCs, as well as actions of competitors. The modulating force resides in the external environment which may weaken or reinforce the desirability of LCCs or airports in establishing a business relationship with each other. In addition to the availability of alternative suggested by Emerson (1962) and Pfeffer and Salancik (2003), this research found that actions of competitors act as part of the modulating force too. IT is because the actions of competitors directly affect the availability of alternative to the counterpart. Besides, Emerson (1962) suggested that the dependence of actor A on actor B is inversely proportional to the availability of alternative. Moreover, Pfeffer and Salancik (2003) also suggested that higher concentration of resource control leads to higher dependence on the resource suppliers. However, the modulating force suggested in this research is found to be easier in reinforcing a strong desire to be even stronger or a weak desire to be even weaker, than to turn a strong desire into being weaker or a weak desire into being stronger. This situation may suggest that the type of business opportunity can have more influence than the modulating force on the desirability of LCCs and airports in establishing the business relationship with each other. Two concluded outcomes regarding the modulating force are proposed as follows.

Concluded outcome 4: The external factors, such as attitudes and availability of alternative airports, availability and feasibility of alternative LCCs and actions of

competitors, form a modulating force which is able to reinforce or weaken the desirability of LCCs and airports in establishing a business relationship with each other.

Concluded outcome 5: The influence of the modulating force on desirability is limited when it is trying to turn a strong desire into a weak one or turn a weak desire into a strong one.

3. How do LCCs and airports develop a relationship?

After LCCs and airports locate a suitable business partner according to the business opportunities and desirability, they can begin to establish a business relationship with each other. The four cases are found to fall into two categories of the development process of LCC-airport relationships, which are the negotiation approach and the licensing approach. Before LCCs and airports can establish a business relationship, they have to go through three steps, namely, the acquaintance process, negotiation process and licensing process within the negotiation approach. On the other hand, there are two steps within the licensing approach, which are the notifying process and licensing process. The major difference between the negotiation approach and licensing approach is that LCCs and airports have the opportunity to bargain with each other in the negotiation approach, while airports provide no room for negotiation in the licensing approach situation. In the negotiation approach, LCCs and airports would only proceed to the licensing process after both reach the consensus on terms and conditions throughout the negotiation process. The negotiation topics between LCCs and airports are mainly regarding discount of

airport charges, incentive programs, marketing support, arrangements for operations, technology, long term commitment and guarantee of low airfares. On the other hand, LCCs do not have to go through the notifying process before they proceed to the licensing process within the licensing approach. Instead, they could proceed to the licensing process directly and notify airports at a later stage, or the other way around, or go with both processes at the same time. LCCs and airports continue to grow their business relationships once they start the relationships successfully.

During the relationship establishment and growth stage, mutual compromise, mutual support, unilateral compromise, unilateral support, and mechanical interaction have been found in the interaction that occurs between them. Owing to the different actions and reactions taken by LCCs and airports during their interaction process, the cases are found to construct four different types of LCC-airport relationships. These are the solid strategic-reciprocal relationship, unilateral committed relationship, loose-institutionalized relationship and unilateral attached-institutionalized relationship.

4. What are the factors and how do they affect the development of LCC-airport relationships?

This research study attempts to explain why the relationships are developed in four different ways. Further developed from Power-dependence relations theory (Emerson, 1962) and resource dependence theory (Pfeffer & Salancik, 2003), this study found two new concepts, which are inherent power and inherent dependence. These two new concepts basically determined the establishing approach and

interactions between LCCs and airports. It is found that the utilization of airport capacity basically determines the approach to the development process of LCC-airport relationships. The level 1 or 2 airports, such as MFM and CRK, are under-utilized airports which have ample surplus capacity. They are categorized as flexible airports because they are willing to adjust their charging system and operational procedures according to the requests of LCCs. As their business status needs urgent improvement, they are under high pressure to attract new airline business partners. Under these circumstances, they are willing to negotiate and adjust their charges and operational procedures in order to accommodate new business partners. Therefore, they tend to make compromises and provide support to LCCs. The under-utilized airports tend to have inherent dependence on LCCs. Their ability to request LCCs make a similar level of compromise or support is contingent on the extent to which their counterpart depends on them. On the other hand, level 3 airports such as BKK and HKG, have near saturated capacity. They are categorized as institutionalized airports because they have the least flexibility in their charging systems and operational procedures. Their good business status means they have no urgent need to attract new business partners. Therefore, they do not need to make compromises, provide support or adjust operational procedures for any particular individual airline. In contrast, they request all airlines adapt to their standard practice. As a result, the airports with near saturated capacity have inherent power over all airlines. Thus, the following concluded outcome is derived.

Concluded outcome 6: High utilization of capacity leads an airport to have inherent power over LCCs which classifies it to be an institutionalized airport, while low

utilization of capacity leads an airport to have inherent dependence on LCCs which classifies it as a flexible airport.

Desire indicates the dependence of LCCs and airports upon each other while inter-desirability determines the state of power imbalance-mutual dependence. The research findings have also confirmed power imbalance-mutual dependence (Casciaro & Piskorski, 2005; Emerson, 1962; Pfeffer & Salancik, 2003) and mutuality (Ford et al., 1986) as factors affecting the development of the LCC-airport relationship by influencing their interaction. Power imbalance between LCCs and airports is the difference between their dependence, while mutual dependence is the sum of their dependence. Mutuality is reflected by the existence of intertwined or respective well-being and interests between them.

The case of AirAsia-MFM revealed that balanced power can prevent LCCs or airports from taking advantage of the other side. A strong mutual dependence and intertwined well-being and interests indicate that the business relationship is very valuable to both LCC and airport. As a result, both AirAsia and MFM are motivated and willing to make compromises and provide support to each other in order to maintain the business relationship and have a strong attachment. They are also willing to plan long term business development strategically together. Therefore, balanced power-strong mutual dependence and intertwined well-being and interests lead AirAsia and MFM to develop a solid strategic-reciprocal LCC-airport relationship.

In contrast, both LCCs and airports are suggested as being unwilling to make compromise and provide support to each other in a balanced power and weak mutual dependence relationship. This is because their balanced power does not enable either one of them to take advantage of the other side. Their weak mutual dependence also suggests that the business relationship has very little value to either of them. Therefore, both Cebu Pacific and BKK are not willing to make concessions to each other. However, the case of Cebu Pacific-BKK revealed that Cebu Pacific made a unilateral compromise to BKK. The reason may be the inherent power of BKK. With inherent power, BKK is able to request Cebu Pacific, as well as other airlines, to follow its systems and standard practices even though Cebu Pacific has the least dependence on the airport but has a balanced power relationship with BKK. This case revealed that the inherent power gives BKK the predominant position in the business relationships with airlines, regardless of the dependence level of the airline. It appears that BKK and HKG have absolute power over all airlines. Because of this inherent power, the case of Cebu Pacific-BKK did not follow the expected interaction. Instead, Cebu Pacific compromised to BKK's standard and mechanical practices. Therefore, they formed an institutionalized LCC-airport relationship. Both Cebu Pacific and BKK have minimum dependence on each other with non-intertwined well-being and interests, which indicates an extremely weak attachment. They eventually created a loose-institutionalized LCC-airport relationship.

The cases of AirAsia-CRK and Cebu Pacific-HKG suggest that imbalanced power would encourage the powerful party to take advantage of the other side. As a result, CRK made unilateral compromise and unilateral support to AirAsia. CRK depends on AirAsia for resources and capabilities as well as for improving its well-being and

interests, while AirAsia is less dependent on CRK. Therefore, CRK values the business relationship more than AirAsia and showed unilateral attachment to them. As a result, AirAsia-CRK formed a unilateral committed LCC-airport relationship.

In the case of Cebu Pacific-HKG, Cebu Pacific depends on HKG more than HKG depends on them. Therefore, HKG has the power advantage and at the same time, HKG also carries the same inherent power as BKK, which classifies them as institutionalized airports. It is no surprise that HKG is able to request Cebu Pacific to follow its standard and mechanical practices, hence Cebu Pacific made unilateral compromise to HKG. Thus, Cebu Pacific and HKG formed an institutionalized LCC-airport relationship. Cebu Pacific also values the business relationship more than HKG and both have non-intertwined well-being and interests, therefore Cebu Pacific has a unilateral attachment to HKG. As a result, they formed a unilateral attached-institutionalized LCC-airport relationship.

Both LCCs and airports are strongly attached to each other within the solid strategic-reciprocal relationship which makes it the strongest LCC-airport relationship between the four types of LCC-airport relationship outcomes. In contrast, both LCCs and airports have an extremely weak attachment to each other in the loose-institutional relationship which makes it the weakest. The strength of the relationship falls between the solid strategic-reciprocal relationship and loose-institutional relationship when either LCCs or airports show unilateral attachment to the other side. Based on the discussion and analysis, the following five concluded outcomes were derived.

Concluded outcome 7: The inter-desirability determines the state of power imbalance and mutual dependence between LCCs and airports which in turn influences the interaction of the LCC-airport relationship.

Concluded outcome 8: Balanced or imbalanced power determines the equality or inequality of exchange of compromise and support between LCCs and airports.

Concluded outcome 9: Dependence as well as intertwined well-being and interests make LCCs and airports willing to compromise and provide support to each other.

Concluded outcome 10: Mutual dependence and mutuality determine the strength of LCC-airport relationships by influencing their attachment to each other.

Concluded outcome 11: The inherent power of the institutionalized airport tends to override the power imbalance-mutual dependence status and dictates the behaviour of LCCs.

In addition, this research study also found that government attitude, local carriers, airport ground parties and media play a role in the development process of LCC-airport relationships. Government attitude subtly influences the legal-institutional constraints by tightening or loosening the licensing process. Government attitude also reflects its influence on the approval or disapproval of discounts offered by airports. Therefore, government attitude indirectly affects the interaction between LCCs and airport. Local flag carriers are seen as obstruction creators because the development of LCC-airport relationships would create competition for them. Local

flag carriers in the case studies have been found to influence government attitude towards the development of foreign LCCs by raising their concerns regarding fierce competition brought by them. They also raised objection to the emergence of LCCs in the licensing process. In the extreme case of influence, the local carrier can indirectly affect the interaction between LCC-airport relationships as it can limit the freedom of the airports to establish a business relationship with foreign LCCs via its control over allocation of airport slots. Ground parties also play a role in the LCC-airport relationship because the cost of ground handling is also one of the concerns of LCCs. As the ground handling service for LCCs is not provided by airports but by ground parties, they can directly affect whether LCCs can carry out ground operations smoothly and at a low cost. This would, in turn, influence the survival of LCCs at airports, and thus their business relationship. Therefore the attitude of ground parties towards LCCs would determine whether airports need to take any action in negotiating on behalf of LCCs to ground parties or whether the LCC needs to request help from the airport to negotiate on their behalf. Media is found to exercise its function of surveillance and limit the freedom of airports to offer unique privileges to foreign LCCs, which can indirectly influence the development of LCC-airport relationships. Both MFM and BKK suggested that airports cannot explicitly offer any special privileges to foreign LCCs, as the media would publicize this fact which would then create difficulties to airport management. As a result, airport management have to consider media response when they negotiate with foreign LCCs.

Instead of influencing the suppliers' development of the resources (Ford, Hakansson & Johanson, 1986) this study found that the existing relationship outcomes can affect

the interactions between LCCs and airports in the future, hence their future relationship outcomes. This point of view further extends the argument of dynamism of a relationship which is affected by individual episodes (IMP, 1982). However, this study suggests that relationship outcome is not the end of a relationship. Instead, the existing relationship outcome will exert influence on the future interaction and relationship outcome too. Relationship outcomes of LCCs and airports have long been designated by their goals and objectives as well as their ability to achieve the same for the other side. Their goals and objectives as well as their ability, determines the types of business opportunities they represent to each other. The type of business opportunity determines the inter-desirability of each other, hence their power imbalance and mutual dependence are also determined. Their goals and objectives also determine their mutuality. Their state of power imbalance-mutual dependence together with mutuality will influence their interaction, thus they develop different types of relationship outcomes. If the goals and objectives or resources and capabilities of either LCCs or airports change, their relationship outcome would be changed accordingly through the operation of inter-desirability, power imbalance, mutual dependence and mutuality. Given that their state of power imbalance-mutual dependence and mutuality remain unchanged, their relationship development process is actually a loop in which their current interaction determines their current relationship outcome, which will in turn affect the attitude of the LCC and airport towards their future relationship development, hence their future interaction and relationship outcomes are influenced. Along with the life of their relationships, this loop runs continuously.

Concluded outcome 12: The development process of LCC-airport relationship is a loop in which their current relationship outcome is the result of their current interaction. Their current relationship outcome will determine the attitudes of LCCs and airports towards their relationship development in the future, their interaction and relationship outcome in the future.

5.2. Recommendations on further studies

The analysis suggests that various types of business opportunities determine the desirability of LCCs and airports in establishing a business relationship with each other. On the other hand, the modulating force has a lower ability to move their desire into the opposite direction, which indicates that the modulating force may not be able to weaken their desire when they have a strong desire, or it may not be able to increase their desire when it is weak. In contrast, the modulating force appears to be able to further reinforce their strong desire or further weaken their weak desire. This research suggests further studies are required to examine the influential ability of the modulating force.

In the chapter of methodology, there was an uneven distribution in the matrix of dependence by LCCs and airports (Figure 3.1, p.69). Most LCCs and airports were found to have a low dependence on each other, few of them were found to have imbalanced dependence, while only one case was found to have mutually strong dependence. Further studies are required to explain this phenomenon.

This research study also reveals that power and dependence as well as mutuality, basically determines the behaviour of LCCs and airports and interaction between

them. The imbalanced relationship tends to make interaction between LCCs and airports a zero-sum game, which means that the gain to one side is a loss to the other. On the other hand, intertwined well-being and interests may be able to balance the benefit between LCCs and airports in a situation of imbalanced power. Therefore, further studies regarding the creation of intertwined well-being and interests for the power disadvantaged party should be conducted.

5.3. Significance of the study

The significance of this study is twofold, which reflects on the implications of the study for practitioners and its contributions to academia. The following paragraphs discuss the implications to practitioners and the contributions to academia.

5.3.1. Implications for practitioners

In the problem statement, it was proposed that the development process of the LCC-airport relationship would be different from that of FSC-airport relationships. By answering the research questions, this study examined why and how LCCs and airports interact with each other, as well as identifying which factors affect them during their relationship development process. These answers can provide a framework for LCCs and airports to plan, manage and develop business relationships with their counterparts in a strategic manner, particularly when there is a need to negotiate.

The establishment of new business relationships between LCCs and airports incurs substantial investment from both parties. Therefore, it is very important for them to carefully evaluate the potential business relationship before they establish it. This

research suggests that the business opportunity matrix (Figure 4.6, p.226) is a method to which LCCs and airports can evaluate the establishment of a business relationship with potential business partners. The evaluation results can help them make strategic decisions regarding whether or not they should establish these relationships.

Furthermore, the evaluation results can also help LCCs and airports rank the priority in establishing a business relationship with different potential business partners when there is several numbers of them. More importantly, they can also evaluate the value they carry to their potential business partners. By comparing the business opportunities they represent to each other, LCCs and airports are able to project the inter-desirability between them and also predict their interaction. This projection and prediction can actually help LCCs and airports prepare strategies and tactics for negotiations which may happen between them in the future.

This research study also reveals that the business relationship development process between LCCs and under-utilized airports are different from those of FSC-airports. In the cases involving under-utilized airports, LCCs were more likely to influence an airport to enter the negotiation process and try to take advantage of those negotiations. In this case, under-utilized airports may realize that the knowledge gained from interacting with FSCs is not applicable to their interaction with LCCs. Instead, the findings suggest that under-utilized airports evaluate the power and dependence, as well as mutuality, in order to obtain a better deal from its negotiations with LCCs. This study revealed that the argument could not stand in the case of near fully utilized airports. The budget terminals of Singapore Changi Airport and that of Kuala Lumpur International Airport may be the exception. This

research study found that institutionalized airports tend to handle LCCs in the same manner as FSCs by applying the same charging systems and operational procedures. LCCs may have to realize that they do not have the power to overcome the inherent power carried by these busy airports and may have to follow standard airport practice as FSCs do.

LCCs and airports are found to have different actions and reactions within different types of relationship outcomes. This research has suggested strategies to both parties regarding different types of relationships. In solid strategic-reciprocal relationships, LCCs and airports are recommended as maintaining or even expanding their existing relationships. In the unilateral committed relationship, LCCs are recommended to maintain the existing situation of the business relationship while airports are recommended to strengthen their capabilities by diversifying the business portfolio into attracting more airlines to their airports. In the situation of loose-institutionalized relationships, LCCs are recommended to search for substitute airports, while airports are recommended to maintain the existing situation of their relationships. In the situation of unilateral attached-institutionalized relationships, LCCs are recommended to diversify the business portfolio by flying to more airports that can represent the same business opportunity, and cultivate other potential destinations with other airports. Airports are recommended to maintain the existing situation of their business relationships.

These research findings suggest that the most wanted resource and capability of airports by LCCs is the accessibility to potential demand within the immediate and vicinity market of the airports, rather than the airport facilities and services such as

quick turnaround time (Gillen & Lall, 2004), quick check-in (Barrett, 2004), the single storey airport terminal (Barrett, 2004; Francis et al., 2004) and good catering and shopping facilities (Barrett, 2004). The potential demand consists of inbound and outbound travel. The growth of potential outbound travel demand depends on local economy development. On the other hand, the potential demand of inbound travel can be stimulated by nurturing destinations within the catchment areas of airports. Therefore, airport managers are recommended to collaborate with destination marketing departments regarding destination development.

5.3.2. Contributions to academia

This research began with the theory of interaction (Ford et al., 1986; IMP Group, 1982), resource dependence theory (Pfeffer & Salancik, 2003), mutuality (Ford et al., 1986) and capability (Ford et al., 1986) which have been applied to the area of industrial buyer-seller relationships (Buchanan, 1992; Caniels & Gelderman, 2007; Dwyer et al., 1987; Ford, 1980; IMP Group, 1982; Izquierdo & Cillan, 2004; Woo & Ennew, 2004). This research is able to extend these theories and concepts from the area of industrial buyer-seller relationships to those of the LCC-airport relationships, thereby contributing to new knowledge in the area of aviation studies.

This research study suggests that the concept of resources and capabilities of airports is different to that of suppliers in the industrial market. Within the industrial market, they only control the supply of resources and capabilities in producing products for buyers, but not the potential market of the buyers. However, destination airports, as an airport service provider, actually control the accessibility of LCCs to the potential demand within the immediate and vicinity of the airports. This finding enriches the

concept of resources and capabilities and also provides another dimension to measure the resources and capabilities of airports. In addition to the contribution to academia, this finding also contributes to strategic decisions by airport managers on airport development for the future.

The Business Opportunity matrix (Figure 4.6 p.226), based upon goals and objectives as well as resources and capabilities, has been developed to evaluate business opportunities that LCCs and airports represent to each other, from which their level of desire towards each other as a potential business partner is derived. Through comparison of business opportunities, the configuration of inter-desirability (Table 4.7, p.235), is introduced. The business opportunity matrix and induced level of desire explains why LCCs and airports want to establish a business relationship with each other. The inter-desirability determines their state of power imbalance and mutual dependence. In addition, intertwined or non-intertwined well-being and interests are found to determine the level of mutuality between LCCs and airports. Together with the state of power imbalance and mutual dependence, mutuality influences the interaction and eventually, relationship outcomes of LCCs and airports. On the one hand, these concepts can enrich the theories within aviation management and on the other, transfer to other contexts of business-to-business relationships.

Developing business relationships with LCCs is a new experience for most airports in Southeast Asia, of which some do still not have any experience in doing so. However, the knowledge of relationships between FSCs and airports could not be applied to the relationship between LCCs and airports, particularly when under-utilized airports are involved. Both MFM and CRK also admitted in the interview

that it was a shock when they negotiated with AirAsia for the first time. This was because AirAsia's mode of establishing a business relationship was totally different to the knowledge and experiences they had gained from those with FSCs. This study contributes to academia by filling the research gap regarding a new type of business relationship within the aviation industry. The author of this thesis believes that the research of LCC-airport relationships can have an increasing importance along with the continuing development of LCCs. The author also believes that FSCs would become increasingly cost conscious because of the competition from LCCs. Therefore, the behaviour of FSCs and their interaction with airports may tend to include some characteristics of the interaction between LCCs and airports. This study can act as a starting point in the study of evolving FSC-airport relationships. The theories of LCC-airport relationship development processes (Figure 4.15, p.345) suggested by this study, can serve as a starting point for the research on the evolving FSC-airport relationship.

This study begins from buyer-seller relationships within the industrial market. Literature suggests that relationship outcomes have certain influences on the capabilities and development of suppliers, particularly those of small-medium size (Johnsen & Ford, 2001, 2002). However, this case study research does not support this point of view in the context of LCC-airport relationships. Instead, the current relationship outcomes have been found to have influences on attitudes of LCCs and airports towards their future relationship development, therefore their interaction and relationship outcomes in the future are influenced. Meanwhile, the state of power-dependence and mutuality affect their attitudes and interaction continuously. If the current state of power-dependence and mutuality change, then their future attitudes

and interaction will be affected accordingly. Therefore, the LCC-airport relationship process is actually a loop that current interaction determines current relationship outcomes. These would, in turn, affect their attitude towards future relationship development, future interaction, as well as future relationship outcomes. This research study incorporates the concept of the loop into the theory of the LCC-airport relationship development process.

Appendices

Appendix I. *The full list of cases*

No.	LCCs	Destination Airports	LCC - Destination Airport codes	LCC's proportion to weekly total operation of the airport (X-axis)	LCC's weekly frequency per route at the airport (Y-axis)
1	Air Asia Indonesia	Bangkok	QZBKK	0.2%	7
2	Air Asia Indonesia	Kuala Lumpur LCCT	QZKLCCT	5.7%	21
3	Air Asia Malaysia	Banda Aceh	AKBTJ	3.2%	3
4	Air Asia Malaysia	Bandung	AKBDO	13.2%	7
5	Air Asia Malaysia	Bangkok	AKBKK	0.8%	28
6	Air Asia Malaysia	Brunei	AKBWN	4.3%	7
7	Air Asia Malaysia	Chiang Mai	AKCNX	1.9%	7
8	Air Asia Malaysia	Clark	AKCRK	21.5%	7
9	Air Asia Malaysia	Denpasar (Bali)	AKDPS	1.9%	14
10	Air Asia Malaysia	Hanoi	AKHAN	1.1%	7
11	Air Asia Malaysia	Jakarta	AKCGK	0.7%	21
12	Air Asia Malaysia	Krabi	AKKBV	5.3%	4
13	Air Asia Malaysia	Macau	AKMFM	9.7%	28
14	Air Asia Malaysia	Medan	AKMES	2.8%	14
15	Air Asia Malaysia	Padang	AKPDG	7.9%	10
16	Air Asia Malaysia	Palembang	AKPLM	2.4%	4
17	Air Asia Malaysia	Phuket	AKHKT	2.6%	14
18	Air Asia Malaysia	Singapore	AKSIN	0.4%	14
19	Air Asia Malaysia	Solo	AKSOC	16.3%	14
20	Air Asia Malaysia	Surabaya	AKSUB	1.7%	14
21	Air Asia Malaysia	Vientiane	AKVTE	2.2%	3
22	Air Asia Malaysia	Yogyakarta	AKJOG	1.7%	4
23	Air Asia Thailand	Hanoi	FDHAN	3.3%	21
24	Air Asia Thailand	Jakarta	FDCGK	0.2%	7
25	Air Asia Thailand	Kuala Lumpur LCCT	FDKLCCT	2.9%	21
26	Air Asia Thailand	Macau	FDMFM	6.1%	28
27	Air Asia Thailand	Penang	FDPEN	4.3%	14
28	Air Asia Thailand	Singapore	FDSIN	1.1%	28
29	Air Asia Thailand	Yangon	FDRGN	1.9%	7
30	Cebu Pacific	Bangkok	5JBKK	0.3%	3
31	Cebu Pacific	Hanoi	5JHAN	0.5%	3
32	Cebu Pacific	Ho Chi Minh City	5JSGN	0.4%	4

No.	LCCs	Destination Airports	LCC - Destination Airport codes	LCC's proportion to weekly total operation of the airport (X-axis)	LCC's weekly frequency per route at the airport (Y-axis)
33	Cebu Pacific	Hong Kong	5JHKG	1.2%	28
34	Cebu Pacific	Jakarta	5JCGK	0.1%	3
35	Cebu Pacific	Kuala Lumpur LCCT	5JKLCCT	0.5%	4
36	Cebu Pacific	Macau	5JMFM	1.5%	7
37	Cebu Pacific	Singapore BT	5JSINBT	9.2%	7
38	Jetstar	Bangkok	3KBKK	0.4%	15
39	Jetstar	Denpasar (by VF)	VFDPS	0.6%	4
40	Jetstar	Ho Chi Minh City	3KSGN	0.7%	7
41	Jetstar	Hong Kong	3KHKG	0.4%	14
42	Jetstar	Jakarta (by VF)	VFCGK	0.9%	28
43	Jetstar	Kuala Lumpur	3KKUL	0.3%	7
44	Jetstar	Macau	3KMFM	1.5%	7
45	Jetstar	Manila	3KMNL	0.4%	7
46	Jetstar	Phuket	3KHKT	1.1%	6
47	Jetstar	Surabaya (by VF)	VFSUB	0.9%	7
48	Jetstar	Yangon	3KRGN	0.8%	3
49	Lion Air	Kuala Lumpur	JTKUL	0.3%	7
50	Lion Air	Singapore	JTSIN	0.2%	7
51	Viva	Ho Chi Minh City	ZGSGN	0.4%	4
52	Viva	Jakarta	ZGCGK	0.1%	4

Sources: Compiled from OAG, 2007

Appendix II. Invitation letters for interview

A. Invitation letters for LCCs

Dear

Invitation for Individual Interview

We are the School of Hotel and Tourism Management of The Hong Kong Polytechnic University, and currently conducting a study about the relationship development between low cost carriers (LCC) and airports in Southeast Asia. Thus we venture to write you and invite you to participate in a face-to-face individual interview.

LCCs have experienced a brisk growth all over the world in recent years. The development of LCCs will inevitably involve interaction with airports. This study will examine how the LCC-airport relationship is developing. The aim is to provide an overall picture to LCCs that what factors are affecting the relationship with airports in different countries from time to time. The findings of this study will be particularly useful in forming strategies to negotiate and develop business with airports.

The interview will last for about one and a half hour at a place and time that is convenient to you. All the information you provided in the interview will only be used for academic purposes. We would like to provide you the interview questions and a brief introduction of this study in advance if you find this research is in your interest and benefit.

After we finish the study, we would be more than delighted to share the findings with you. We hope it will contribute to your LCC for analyzing route and business development with airports in the future. We can ensure you that the findings will not disclose any particulars and confidential information of any airlines. Your participation in the interview will critically determine the success of this study. Therefore, we sincerely hope that you can share your precious experience with us which will in turn become a long lasting academic contribution to the future generations. Please do not hesitate to contact us if you have any further questions about this study or about the interview.

We would like to take this opportunity to express our appreciation to the contributions that your airlines have made to the aviation and tourism industry. We also want to express our gratitude in advance for your participation to this study. We look forward to hearing from you soon.

Yours truly,

Dr Barry Mak, Ph.D.
Assistant Professor
School of Hotel & Tourism Management
The Hong Kong Polytechnic University
Hung Hom, Kowloon, Hong Kong.
Tel: (852) 2766 6365
Fax: (852) 2362 9362
Email: hmbarry@

Eliver Lin
Ph.D. Candidate
School of Hotel & Tourism Management
The Hong Kong Polytechnic University
Hung Hom, Kowloon, Hong Kong.
Tel: (852) 3400 3145 / (852) 9301
Fax: (852) 2362 9362
Email: hmeliver@

B. Invitation letter for airports

Dear

Invitation for Individual Interview

We are the School of Hotel and Tourism Management of The Hong Kong Polytechnic University, and currently conducting a study about the relationship development between low cost carriers (LCC) and airports in Southeast Asia. Thus we venture to write to you and invite you to participate in a face-to-face individual interview.

LCCs have experienced a brisk growth all over the world in recent years. In the foreseeable future, there will be more and more interaction between airports and LCCs as they grow extensively. This study will examine how the LCC-airport relationship is developing. The aim is to provide an overall picture to airports that what factors are affecting the relationship with LCCs in different countries from time to time. The findings of this study will be particularly useful in forming strategies to negotiate and develop business with LCCs.

The interview will last for about one and a half hour at a place and time that is convenient to you. All the information you provided in the interview will only be used for academic purposes. We would like to provide you the interview questions and a brief introduction of this study in advance if you find this research is in your interest and benefit.

After we finish the study, we would be more than delighted to share the findings with you. We hope it will contribute to your airport for analyzing business development with LCCs in the future. We can ensure you that the findings will not disclose any particulars and confidential information of any airports. Your participation in the interview will critically determine the success of this study. Therefore, we sincerely hope that you can share your precious experience with us which will in turn become a long lasting academic contribution to the future generations. Please do not hesitate to contact us if you have any further questions about this study or about the interview.

We would like to take this opportunity to express our appreciation to the contributions that your airport has made to the aviation and tourism industry. We also want to express our gratitude in advance for your participation to this study. We look forward to hearing from you soon.

Yours truly,

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School of Hotel & Tourism Management
The Hong Kong Polytechnic University
Hung Hom, Kowloon, Hong Kong.
Tel: (852) 2766 6365
Fax: (852) 2362 9362
Email: hmbarry@

Eliver Lin
PhD Candidate
School of Hotel & Tourism Management
The Hong Kong Polytechnic University
Hung Hom, Kowloon, Hong Kong.
Tel: (852) 3400 3145 / (852) 9301
Fax: (852) 2362 9362
Email: hmeliver@

C. Introduction of the research (attached to the invitation letters)

Research title: An exploratory study of the low cost carrier - airport relationship development in Southeast Asia

Introduction:

The business of LCC is growing worldwide rapidly with approximately 27% increase in seat capacity in the year of 2005/2006. As the impressive growth rate of LCC is going to continue in the future, it is not difficult to foresee that there will be more and more relationships establishment between LCCs and airports.

Most of the international air services in Southeast Asia are regulated by BASAs. BASA gives airlines rights and responsibilities to fly to airports agreed by the two involved governments. Airports also have rights and responsibilities to accommodate airlines appointed under BASAs. Both airlines and airports are exercising the BASAs together. Besides, airlines are mainly national carriers while airports are mainly government owned and controlled in Southeast Asia. Therefore, the traditional relationship between international airlines and airport in Southeast Asia is between two governments' organizations and confined by BASA.

However, the relationship between LCC and airport is totally different. In Southeast Asia, most of the LCCs are privately owned commercial organizations and need to put every effort to ensure return for their stakeholders. Although LCCs in Southeast Asia are also regulated by BASAs as the national airlines, LCCs do not have the responsibility to fly to all the foreign destination airports agreed in BASAs. Instead, LCCs have the flexibility to make commercial decision on which airports to fly to, provided that the airports are agreed in BASAs. On the other hand, most of the airports in Southeast Asia are still government owned and controlled which may not aim at commercial benefit only. As a result, LCC-airport relationship is between a commercial and a government organization. Therefore, the knowledge of the traditional airlines-airport relationship can no longer be applied to LCC-airport relationship.

Building up a relationship with an airport is an important step of route development of LCCs while building up a relationship with the LCC means tapping a source of income to airports. Obviously, the relationship has significant implication on the future development of both the parties. Owing to the importance of the relationship between both parties, this research attempts to explore the development process of their relationship and make contribution to both airport and LCC.

Objectives

- To identify the pre-requisite constraints that restrict the freedom of LCCs and airports to start up a business relationship with each other;
- To analyze the reasons why LCCs' and airports' establish relationships;
- To examine and analyze how LCCs and airports develop relationships;
- To identify the factors affecting the development process of LCC-airport relationships;

- To evaluate the influence of the factors on the development process of LCC-airport relationships; and
- To construct a theory for explaining the development process of LCC-airport relationship in Southeast Asia.

Contribution

The contributions of this study are twofold which are from the aspects of industry and academic.

Industry:

- This study can provide an overall picture to LCC and airport of how their relationship is developed and what factors are affecting them from the time. This knowledge is particular useful to route development of existing LCCs which inevitably involves establishing relationships with airports. On the other hand, this will also contribute to airports which need to develop a new relationship with LCC.
- A study of LCC-airport relationship development can contribute to both of them in managing their relationship portfolio more efficiently. It is because factors affecting their relationship development at various stages may be different and require different resources. With the understanding of their relationship development, they can arrange their resources more efficiently and effectively.

Academic:

- The overall picture of LCC-airport relationship development has not been studied. This research attempts to fill this research gap for contributing to aviation management studies.
- Airlines in the Southeast Asia are gradually undergoing privatization, the airline-airport relationship will then tend to be the LCC-airport relationship. It is because the privatized airlines will be more cost sensitive (Graham, 2003) which is similar to LCC. The understanding of LCC-airport relationship development can act as a starting point to further study the privatized airlines-airport relationship in the future.

Appendix III. Preliminary Interview Guides before Pilot Studies

A. Interview Guide for LCCs

1. When did the contact between your LCC and xxx airport start?
2. What was your job position at that time?
3. Who made the first move in the contact?

Scenario A: LCC	Scenario B: LCC
a. Why this particular airport?	a. What do you think about why this airport chose your LCC?
b. You mentioned about xxx, xxx, xxx, what else did you consider when you were choosing the airport?	b. What influenced your response to the approach from this airport?
c. How about airport discount?	

4. Besides this airport, did you contact any other airports in the region?

Yes	No
a. Why did you choose this airport eventually?	Go to Q.5

5. Besides your LCC, did you think this LCC contacted any other airports in the region?

Yes	No
a. What do you think about why they chose your airport eventually?	Go to Q.6

6. How much did you need this airport?
 - a. Has this situation changed?
 - b. Why the changes?
7. How suitable is this airport to your LCC?
8. What were your goals when you negotiated with this airport?
9. What were the major interests that you considered?
10. Have your goals and interests been achieved?

- a. What was achieved and what wasn't achieved?
- b. Have you ever adjusted your goals?

Yes	No
i. What changes did you make?	Go to Q.11
ii. Why the changes?	

11. Did you know what goals and interests this airport wanted to achieve?

- a. What are they?

(Compare with Q8 and Q9, see any commonalities / diversities.)

Found commonalities	Found diversities
b. You both aimed at xxx..., how did this common goal / interest affect the interaction between you both?	a. You aimed at xxx while this LCC wanted xxx, how did this diverse goal / interest affect the interaction between you both? b. How did you and this LCC deal with these diverse goals and interests?

12. Your LCC started to operate at this airport DATE. How long did the negotiation last between you both before you really operated at this airport?

13. Who was involved in the negotiation?

14. What were the major topics that had been negotiated?

15. How do you describe the negotiation process with this airport?

- a. Why?

16. How many routes did your LCC plan to operate from this airport at the beginning?

- a. How about frequencies?

- b. (Compared to the current route and frequency, if different, then) why the differences?

17. Most LCCs in the world get some special offers from airports; did your LCC obtain any special offer from this airport?

Yes	No
a. What were the special offers?	a. Did this airport deal with your LCC specifically?
b. Why were you willing to provide	

a special offer to this LCC? c. Besides these special offers, did this airport deal with your LCC specifically? d. What was the deal?	b. What was the deal?
---	-----------------------

18. Did your LCC have any special requirements of operations?

Yes	No
a. What are they? b. In order to fit your special requirements, did this airport offer a different operation procedure particularly for you? c. What are they? d. When did this airport start to proceed with those special operational procedures?	Go to Q19

19. What do you think as to why they were willing to provide these special offers, special deal and special operation procedures, particularly for your LCC?

20. What were the major obstacles or conflict between your LCC and this airport from the beginning until now?

a. How did you both deal with these obstacles?

b. Why in such a way?

21. Had this airport ever tried to influence your decision making?

Yes	No
a. When did they influence you? (Remarks: during negotiation / operations?) b. How did they influence you? (Remarks: use of personal network / friendship?) c. What were your reactions? (Remarks: any concessions made?) d. Why did you have such reactions?	Go to Q.22

22. Had you ever tried to influence this airport's decision making?
- a. When did you influence them? (During negotiation / operations?)
 - b. How did you influence them?
 - c. How did the airport react?
 - d. Did you know why they had such reactions?

23. Did government participate in the interaction between your LCC and this airport?

Yes	No
a. What did the government do?	Go to Q.24

24. What is the government attitude towards the development of LCCs?

- a. Do you think it is important to the development of your LCC at this airport?

25. How do you describe your business relationship with this airport now?

26. Do you want to develop further business with this airport?

Yes	No
a. What will be the major concerns in developing further business with this airport?	a. Why?

27. How long is the contract between your LCC and this airport?

B. Interview Guide for Airports

1. When did the contact between your airport and xxx LCC start?
2. Were you the principle negotiator with XXX LCC at that time?
3. Who made the first move in the contact?

Scenario A: Airport	Scenario B: LCC
a. Why this particular LCC? b. How do you see this LCC influencing the development of the airport's route network? c. You mentioned xxx, xxx, xxx, what else did you consider when you were choosing the LCC?	a. What do you think about why this LCC chose your airport? b. What influenced your response to the approach from these LCCs?
d. How about the LCC's ability to increase passenger throughput? e. How about the long term prospect of this LCC? f. What do you think about their prospect?	

4. Besides this LCC, have you considered other carriers for the development of LCC business at your airport?

Yes	No
a. Why did you choose this LCC eventually?	Go to Q.5

5. Besides your airport, are there any other alternative airports available to this LCC in this region?

Yes	No
a. What do you think about why they chose your airport eventually?	Go to Q.6

6. How much did you need this LCC?
 - a. Has this situation changed?
 - b. Why the changes?
7. How suitable is your airport to this LCC?
 - a. What are the specific requirements demanded by this LCC?

8. What were your goals of negotiating with this LCC?
9. What were the major interests that you considered?
 - a. Have your goals and interests been achieved?
 - b. What has been achieved and what hasn't been achieved?
 - c. Have you ever adjusted your goals?

Yes	No
i. What changes did you make?	Go to Q.9
ii. Why the changes?	

10. Does your airport carry any social responsibility?
 - a. What are they?
 - b. How do these social responsibilities affect the way you deal with this LCC?
11. Did you know what goals and interests this LCC wanted to achieve?
 - a. What are they?

(Compare with Q8 and Q9, see any commonalities / diversities.)

Found commonalities	Found diversities
b. You both aimed at xxx..., how did this common goal / interest affect the interaction between you both?	a. You aimed at xxx while this LCC wanted xxx, how did this diverse goal / interest affect the interaction between you both? b. How did you and this LCC deal with these diverse goals and interests?

12. xxx Airlines started to operate at your airport DATE. How long did the negotiation last between you and this LCC before it really operated at your airport?
13. Who was involved in the negotiation?
14. What were the major topics that had been negotiated?
15. How do you describe the negotiation process with this LCC?
 - a. Why?

16. How many routes did your airport want this LCC to operate at the beginning?
- How about frequencies?
 - (Compared to the current route and frequency, if different, then) why the differences?
17. Most of the LCCs in the world get some special offers from airports; did your airport provide any special offers to this LCC?

Yes	No
a. What were the special offers?	a. Were there any other areas where you gave this LCC special assistance??
c. Were there any other areas where you gave this LCC special assistance?	b. What was the special assistance?
d. What was the special assistance?	

18. Does this LCC have any special requirements on operations?

Yes	No
a. What are they?	Go to Q18
b. In order to meet their special requirements; did you introduce different operational procedures particularly for this LCC?	
c. What are they?	
d. When did you start these particular operation procedures?	

19. Why were you willing to provide those special offers, agree with a special deal, or introduce such operational procedures particularly for this LCC?
20. What were the major obstacles or conflict between your airport and this LCC from the beginning to now?
- How did you both deal with these obstacles?
 - Why in such a way?
21. Had this LCC ever tried to influence your decision making?

Yes	No
Tell me more about that....	Go to Q.21

22. Had you ever tried to influence this LCC's decision making?

Yes	No
Tell me more about that....	Go to Q.22

23. What are your sources of income? (any government subsidies?)

a. Which is the main source of income? (government subsidies? Aeronautical / non-aeronautical income?)

24. Does the aeronautical and non-aeronautical income brought by this LCC represent an important proportion to the total income of your airport?

25. Did government participate in the interaction between your airport and this LCC?

Yes	No
a. What did the government do?	Go to Q.25

26. What is the government attitude towards the development of LCCs?

a. Do you think it is important to the development of LCCs at your airport?

27. How long is the contract between your airport and this LCC?

28. How do you describe your business relationship with this LCC now?

29. Do you want to develop further business with this LCC?

Yes	No
a. What will be the major concerns in developing further business with this LCC?	a. Why?

Appendix IV. *Revised Interview Guides after Pilot Studies*

A. Interview Guide for LCCs

Thank you very much for your kind support to this research. May we reassure you of the confidentiality of the information you provide during the interview, of which all will be used for academic purposes only. The information will not be revealed or disclosed to any other third party.

1. When did the contact between this airport and your airline start?
2. Were you the principle negotiator or were you heavily involved in the negotiation process with this airport?
3. Who made the first move in the contact?

Scenario A: LCC made the first move	Scenario B: Airport made the first move
<ol style="list-style-type: none"> a. Besides this airport, are there any other alternative airports available to your airlines which also fit your network development and business model? b. Why this particular airport? c. Besides the factors just mentioned, were there any other factors you considered when choosing airports? d. What were their responses to your airline's initiation? 	<ol style="list-style-type: none"> a. What were your responses to their initiation? b. What influenced your responses?

4. Before you start negotiating with this airport, I believe you would have a negotiation plan regarding what you want to ask from this airport, airport charges, special assistance, your bottom line... and so on, Based on this, what evaluations did your airlines come up with for this plan?
5. How long did the negotiation between this airport and your airline last before your airlines actually operated at this airport?
6. How do you describe the negotiation process with this airport?
 - a. What comments do you have on this?
7. What were the major topics negotiated with this airport?
 - a. Which were the difficult topics?

- i. How did you both deal with these difficult topics?
 - ii. What made you both deal with these difficult topics in these ways?
 - b. If no difficult topic: What made you both have such a smooth negotiation? (if talked in Q6a, then skip).
- 8. Besides this airport and your airlines, were there any other parties involved in the negotiation?
 - a. Did they influence the interaction between this airport and your airline?
 - b. How? What did they do?
- 9. After negotiation with this airport, did you change your original plan of business development with this airport?

Yes	No
a. What were the changes?	Go to Q10
b. Why the changes?	

- 10. Did this airport make any special request to your airlines? (skip if mentioned in Q7)

Yes	No (Go to Q.11)
a. What did they request?	
b. What were your responses?	
c. What made you have these responses?	
d. Did you make any unique change in your operation equipment / procedures / etc in your airlines in order to fulfil their special request / accommodate their airport?	
e. What changes did you make?	

- 11. Did your airlines make any special request to this airport?

Yes	No
a. What did you request?	Go to Q12
b. What were their responses?	

12. Did government participate in the interaction between this airport and your airline? (Skip if mentioned in Q.8)

Yes	No
a. What did the government do?	Go to Q13
b. Did government participation affect the interaction between this LCC and your airport?	
c. How is your relationship being affected?	

13. In your opinion, what role does government play in the relationship between this airport and your airline?

14. What is the government attitude towards the development of your airline at this airport?

- a. Do you think government attitude affects the development of your airline at this airport?

15. What are the pre-requisite conditions that allow or disallow your airline to start up business at this airport?

16. How do you describe your business relationship with this airport now?

- a. What make you have this comment?

17. What were the major conflicts between this airport and your airline from the beginning of negotiations to now?

- a. How did you both handle these conflicts?

- b. Why?

- c. If no / very little conflict: What made you both have such conflict-free interaction?

18. What were the major obstacles (from the outside) to the relationship between this airport and your airlines from the beginning of negotiations to now?

- a. How did you both deal with these obstacles?

- b. Why in such ways?

19. Was this airport important to your airline from the beginning of negotiations to now?

- a. What makes them important / unimportant to your LCC?
- 20. Do you think your airline is important to this airport from the beginning of negotiations to now?
 - a. What makes you think that your airport is important / unimportant to them?
- 21. From the beginning of negotiations to now, which side depends more on the other-this airport or your airline?
- 22. How long is the contract between this airport and your airline?
- 23. Do you want to develop further business with this airport?

Yes	No
a. What will be the major concerns in developing further business with this airport?	a. Why not?

- 24. Did the relationship with this airport affect your future business planning?
 - a. How is your future business planning being affected?
- 25. Do you have any other comments you would like to make?

B. Interview Guide for Airport

Thank you very much for your kind support to this research. May we reassure you that the confidentiality of the information you provide during the interview, all will be used for academic purposes only. The information will not be revealed or disclosed to any other third party.

1. When did the contact between this LCC and your airport start?
2. Were you the principle negotiator or were you heavily involved in the negotiation process with this LCC?
3. Who made the first move in the contact?

Scenario A: Airport made the first move	Scenario B: LCC made the first move
a. Besides this LCC, are there any other alternative airlines available to develop LCC service on this route at your airport?	a. What were your responses to their initiation?
b. Why this particular LCC?	b. What influenced your responses?
c. Besides those factors just mentioned, were there any other factors considered when you were choosing LCC?	
d. What were their responses to your airport's initiation?	

4. Before you start negotiating with this LCC, I believe you would have a plan about what to offer to this LCC, what not to offer, the airport charges, your bottom line ... and so on. Based on this, what evaluations did your airport come up with for this plan? (Dependence / Mutuality / Rules and regulations.....)
 - a. How did these evaluations affect your airport's negotiation strategy?
5. How long did the negotiation between this LCC and your airport last for before they actually operated at your airport?
6. How do you describe the negotiation process with this LCC?
 - a. What made you have this comment?
7. What were the major topics negotiated with this LCC?
 - a. Which were the difficult topics?

- i. How did you both deal with these difficult topics?
 - ii. What made you both deal with these difficult topics in these ways?
 - b. If no difficult topic: What made you both have such a smooth negotiation? (if talked in Q6a, then skip)
- 8. Besides this LCC and your airport, were there any other parties involved in the negotiation?
 - a. Did they influence the interaction between this LCC and your airport?
 - b. How? What did they do?
- 9. Does your airport have any business development plan with this LCC?
- 10. After the negotiation with this LCC, did you change the original plan of business development with it?

Yes	No
a. What were the changes?	Go to Q11
b. Why the changes?	

- 11. Did this LCC make any special requests to your airport? (skip if mentioned in Q7)

Yes	No / Yes
a. What did they request?	a. Did your airport take the initiative to provide this LCC with any special assistance / special offer? (operations / charges)
b. What were your responses?	b. If yes: What did you provide to them?
c. What made you have these responses?	c. What made you take such initiatives?
d. Did you make any unique change in your operation equipment / procedures / whatever in your airport in order to fulfil their special request / provide them special assistance / accommodate them at your airport?	
e. What changes did you make?	

- 12. Did your airport make any special requests to this LCC?

Yes	No
a. What did you request?	Go to Q13

b.	What were their responses?	
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13. In fact, does your airport deal with LCCs just the same as with full service carriers?
14. What are the airport's sources of income? (any government subsidies?)
 - a. Which is the main source of income? (government subsidies / Aeronautical / non-aeronautical income)
15. Did government participate in the interaction between this LCC and your airport? (if mentioned in Q8, then skip Q15-Q15c)

Yes	No
a. What did the government do?	Go to Q16
b. Did government's participation affect the interaction between this LCC and your airport?	
c. How is your relationship being affected?	

16. In your opinion, what role is government playing in the relationship between this LCC and your airport?
17. What is the government attitude towards the development of this LCC at your airport?
 - a. Do you think government attitude affects the development of this LCC at your airport?
18. What are the pre-requisite conditions that allow this LCC and your airport to start up a business relationship?
19. How do you describe the business relationship with this LCC now?
 - a. What makes you have this comment?
20. What were the major conflicts between this LCC and your airport from the beginning of negotiations to now?
 - a. How did you both handle these conflicts?
 - b. Why?
 - c. If no / very little conflict: What made you both have such conflict-free interaction?

21. What were the major obstacles (from the outside) to the relationship between this LCC and your airport from the beginning of negotiations to now?
 - a. How did you both deal with these obstacles?
 - b. Why in such ways?
22. Was this LCC important to your airport from the beginning of negotiations to now?
 - a. What makes them important / unimportant to your airport?
23. Do you think your airport is important to this LCC from the beginning of negotiations to now?
 - a. What makes you think that your airport is important / unimportant to them?
24. From the beginning of negotiations to now, which side depends more on the other-this LCC or your airport?
25. How long is the contract between this LCC and your airport?
26. Do you want to develop further business with this LCC?

Yes	No
a. What will be the major concerns in developing further business with this LCC?	a. Why not?

27. Did the relationship with this LCC affect your future business planning?
 - a. How is your future business planning being affected?
28. Do you have any other comments you would like to make?

Appendix V. *Interviews Dates and Places*

Interviewees	Date	Place
Former General Manager of Hong Kong International Airport (Pilot interview)	6 th December, 2007	Southampton, England
Nok Air (Pilot interview)	21 st May, 2008	Bangkok, Thailand
Bangkok International Suvarnabhumi Airport (BKK)	23 rd May, 2008	Bangkok, Thailand
Clark International Airport (CRK)	21 st August, 2008	Kuala Lumpur, Malaysia
CAM Macau International Airport Co. Ltd. (MFM)	19 th September, 2008	Macau, Macau
Former executive of MFM	6 th October, 2008	Macau, Macau
AirAsia*	6 th October, 2008	Macau, Macau
Cebu Pacific Airlines	28 th November 2008	Manila, Philippines
AirAsia*	30 th November 2008	Clark, Philippines
Hong Kong Airport Authority (HKG)	8 th January, 2009	Hong Kong, Hong Kong

* The interviews of AirAsia in Macau and the Philippines were conducted at business management level, but neither interviewee was not to answer some of the questions in the interview guide. The response to the interview guide from the corporate management level of AirAsia was emailed to the author on 6th April, 2009.

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