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Article information:

To cite this document:

Eli Moen , (2016), "Succeeding in international competition by making use of home-country institutions", critical perspectives on international business, Vol. 12 Iss 1 pp. 83 - 99

Permanent link to this document:

<http://dx.doi.org/10.1108/cpoib-12-2013-0051>

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Succeeding in international competition by making use of home-country institutions

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international
competition

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Received 19 December 2013

Revised 16 July 2014

5 October 2014

5 November 2014

Accepted 12 November 2014

Abstract

Purpose – This paper aims to address the question how a low-cost carrier (LCC) embedded in a coordinated market economy is succeeding in a highly competitive industry with a strong cost focus.

Design/methodology/approach – This paper reports the results of a case study of a LCC (Norwegian Air Shuttle). The case study draws on both organizational and institutional theory as to how the international business environment and the national institutional framework continuously impact on its strategies.

Findings – It is found that home-country high wage levels and strong labour regulation have been overcome by developing firm-specific capabilities based on active employee involvement which aligns with the tradition of the national system of industrial relations.

Research limitations/implications – The present case study provides an input for further research on how actors deal with conflicting pressures. It supports the varieties of capitalism (VOC) argument that national institutional arrangements influence firms and actors' strategies and practices, but it also supports the call within institutional theories for a more malleable conceptualizing of the link between actors and institutions than is the case in the VOC models.

Originality/value – The paper provides an account of a successful case in a highly competitive international business despite disadvantages linked with home-country institutions.

Keywords Aviation, Case study, Institutions, Employment relations, Home-country, Low-cost carrier

Paper type Research paper

Introduction

Currently, and more than is the case with most other industries, international aviation is experiencing a race-to-bottom competition. Above all, it is the advent of the low-cost airlines that has substantially transformed the competitive dynamics of this industry. The low-cost sector's focus on cost cutting and the use of predatory pricing has changed the rules of the game of the industry as well as companies' business strategies. Because personnel costs make up a considerable proportion of total costs, this type of fixed cost can be competitively decisive. As a result, airlines are increasingly aiming at reducing employees' economic rewards and other benefits as part of their cost-cutting strategies: the greater the competition, the greater the tendency to lower pay (Harvey and Turnbull, 2012; Barry and Nienhueser, 2010; Bamber *et al.*, 2009).

For this reason, the leading European low-cost carriers (LCCs), Ryanair and EasyJet, are headquartered in liberal market economies (LMEs) such as Ireland and the UK. For

The author thanks the Ludv. G. Braathen fund for research on aviation for financial support.



critical perspectives on

international business

Vol. 12 No. 1, 2016

pp. 83-99

© Emerald Group Publishing Limited

1742-2043

DOI 10.1108/cpoib-12-2013-0051

employers seeking to minimize labour costs, these types of economies are of preference, as they typically provide a high degree of managerial discretion, allowing flexibility in terms of wages, staffing and labour utilization (Bamber *et al.*, 2009; Crossland and Hambrick, 2007).

Following this logic, companies embedded in coordinated market economies (CMEs) – such as Norway, characterized by a highly regulated labour market and strong trade unions – are seen to be at a disadvantage when competing in this type of market dynamics. The fact that Norwegian Air Shuttle is currently ranked as the third largest LCC in Europe can, therefore, be seen as a surprising outcome (http://en.wikipedia.org/wiki/Low-cost_carrier). The objective of this paper is to explore this atypical outcome. To the extent that the case company adheres to the typical national system of employment relations, the aim of the paper is to investigate in what ways a CME can be supportive of conditions for competition based on cost-cutting strategies.

The paper will explore this issue in more complex detail by situating the case study of the LCC within varieties of capitalism (VoC) and comparative institutional literature. This type of research strategy allows us to relate the research issue to the debate on the applicability of the dichotomy model inherent in VoC literature and, in particular, as to how it explains the position and behaviour of specific employment relations systems – a highly relevant topic. The connection between national employment relations systems and economic performance has been much debated for some time (Rubery, 2010; Barry and Nienhueser, 2010; Rubery *et al.*, 2008; Bamber and Lansbury, 2004). The question raised is whether countries or even economic communities have to adapt their employment relations systems so that they favour their economic position. Adaptation succinctly implies that distinct national systems of employment relations will become increasingly homogenous and converge towards a model characterized by various forms of employment flexibility, de-centralized bargaining structures and weaker forms of employee representation.

The research strategy selected opens up for new insights into the debate as the case chosen is contradictory to what the literature assumes regarding the relationship between specific employment relations systems and competitiveness (cf. Whitley, 2010a). Additionally, the paper will draw on literature pertaining to the low-cost sector and studies of work organizations to enlighten key dimensions of this particular case in more detail. The investigation is restricted to the period between 2002 and 2012, as changes were made to the company's business model and employment relations after this period.

The paper is structured as follows: it first discusses the theoretical framework; second, it presents the study's methodology; and, third, it points out conflicting areas between competitive and national institutional logics by the constructs of the LCC competition model and the national system of employment. The fourth section presents the empirical findings of the case study and is followed by a section focusing on the issue of institutions for creating competitiveness. The sixth and last section presents the conclusion and implications for further research, respectively.

Theoretical framework

According to institutional theory, firms continue to vary in the way they control and coordinate their economic resources, as they are influenced by national institutions

which structure capital, labour and markets. Because national systems differ, they provide economic actors with different opportunities, constraints and institutional resources. Thus, the way institutions influence business strategies and competitive capabilities is seen to have a relative impact on their success and to generate varied outcomes across market economies (Whitley, 2010b, p. 364). Benefits that firms derive from operating within a particular set of institutions – “benefits that afford them advantages over their competitors and that enhance national socioeconomic performance as a result” – are referred to as institutional competitiveness (Jackson, 2010; Campbell and Pedersen, 2007). As the key institutions likely to have most effect on firms vary (Whitley, 2010b), institutional competitiveness can likewise be derived from different institutions, such as institutions that govern labour markets, industrial policy, technology development, finance and so forth. For this reason, different countries may have institutional advantages for different kinds of economic activities (Jackson, 2010; Hall and Soskice, 2001; Whitley, 1999).

To explore the possible competitiveness of firms embedded in different market economies, Hall and Soskice (2001) provide a useful point of departure in VoC as they identify two broad categories of market economies. The ideal type of institutional context called LME, typical of the UK and the USA, is characterized by market-based coordination, allowing a high degree of managerial discretion, competitive human resource management (HRM) practices in terms of layoffs and poaching labour and decentralized wage bargaining that enables firms to respond quickly to fluctuations.

By contrast, in CMEs – typical of Germany and the Nordic countries – various societal stakeholders are strongly interlinked, as is the case with systems of collective bargaining. As statutory protections additionally provide employees with greater job security, this type of institutional regime is seen to constrain employers’ discretion and is viewed as producing incentives for firms to invest in firm-specific skills and the long-term engagement of employees (Hall and Soskice, 2001, p. 25). It is also observed that complementarities between different types of subsystems make this type of market economy less flexible and slower to change than LMEs. Accordingly, rapid adjustments in labour are considered more likely to take place in LMEs than in CMEs (Hall and Soskice, 2001, p. 44; Whitley, 1999).

Moreover, in relation to the specific issue raised in this paper, recent research points out that the differences between coordinated and liberal market industrial relations systems remain even considerable, and that CMEs’ systems of codetermination and industrial relations, skills and quality standards have been little affected by internationalizing developments (Rubery *et al.*, 2008; Whitley, 2005). Whitley’s (2010b) analysis of the connections between the Fordist competition model[1], to which the LCC model can be subsumed, and the typical systems of employment of CMEs indicates that CMEs even inhibit conditions for a Fordist type of competition in the current era of globalization. Thus, authoritative literature underscores that the case under scrutiny here represents a highly atypical outcome.

Comparative studies based on the LME/CME typologies are well grounded in institutional theory that typically stresses the resilient nature of social structures, i.e. that most features of the institutional context of firms in market economies are relatively stable and cannot be easily altered in the short-to-medium term (Whitley, 2010b; Hall and Soskice, 2001, pp. 17-18). There is, however, a growing critique of these typologies

for neglecting the dynamics of institutional emergence and institutional change (cf. Jackson, 2010). The criticism raised concerns regarding the interpretation of the nature of institutions – for their lack of malleability and not least for not paying enough attention to actors. Empirical studies that increasingly reveal that actors respond to new challenges with a greater variety of organizational responses than that assumed by the VoC literature have led to a reconsideration of the relationship between institution and action (cf. Jackson, 2010; Hancké and Goyer, 2005; Djelic and Quack, 2003). This has opened up for an actor-centred institutionalism that emphasizes the need to take into consideration the capacities and the interests of individual and collective actors (Morgan, 2005; Hancké and Goyer, 2005; Deeg, 2005) and to consider the way they make sense of their potential and external opportunities or threats (Cyert and March, 1992; Hancké, 2002).

Thus, acknowledging that actors may interpret or utilize institutions in different ways has provided a less deterministic and more ambiguous understanding of institutions. Because actors can interpret and utilize institutions in different ways, “adapting them to new contingencies, or avoiding them” implies that institutions can have several meanings and that their boundaries can be expanded (Jackson, 2010, pp. 77-78). By taking the actor perspective fully on board, Kristensen and Morgan (2012, pp. 418-419) argue that it is within the capacity of actors in firms by way of negotiations to use and develop institutions in ways that enable them to restructure work and employment to gain a more effective position in the market. In others words, by utilizing extant institutions in novel ways, actors can use them as a source for creating competitive advantage.

In the same vein, Campbell and Pedersen (2007) criticize VoC literature for not appreciating the degree to which coordinated economies may be organized in decentralized and inclusive ways that enhance competitiveness. Interestingly enough, recent research points out that firms with strong integrative capabilities – in which strong employer federations and trade unions with centralized bargaining tend to become accustomed to working together – are found to have the potential to develop strong organizational learning capabilities (cf. Lorenz and Valeyre, 2005). This type of collective and inclusive organization typically encourages strong employee investment to ensure the effective coordination of operations and developments through a high degree of authority sharing (Whitley, 2010b). Authority sharing implies considerable discretion over the task performance and task organization of employees. However, they are found to be more typical of firms pursuing a competition model characterized by diversified quality production embedded in CMEs (Whitley, 2010a, p. 378). The question here is whether this type of integrative and learning type of organization can also support the conditions for cost-based competition found to be facilitated by a business environment with few legal restrictions, especially in labour markets (Whitley, 2010a), and thus provide theoretical support to the explorative objective of this paper.

Methodology

The research has been undertaken as a single case study to examine how an LCC embedded in a coordinated economy adheres to the national system of employment relations on the one hand and to a highly competitive environment on the other. This choice relates to the uniqueness of this specific case:

- first, because it is “transparently observable” (Eisenhardt, 1989); and
- second, because it represents a contradiction to the VoC literature’s perception that companies embedded in CMEs should be at a disadvantage in competition based on cost leadership.

For these reasons, it can be described as a useful case that has the potential to bring forth new insights (Eisenhardt, 1989). The research design for this study is an embedded one, implying a multilevel analysis within a single case study to bring in-depth insight of the case company’s institutional context into the discussion. Its qualitative approach is justified by the explorative nature of the study, and in particular, the accent on the influence of the case company’s institutional context on its strategy and practices. The study will also draw on quantitative evidence to both identify and support qualitative findings.

The research uses multiple data collection methods for the triangulation of evidence. It draws on empirical data from the company’s annual reports, interviews with different employee groups to incorporate the views of different actors and media items and literature. The primary documents, such as the case company’s annual reports, are easily accessible on the company’s webpage, either in the form of pdf files (for the years 2002-2008) or as online versions (2009 onwards). The information provided is well structured and abundant. For the construct of the company’s strategies and practices, qualitative as well as quantitative empirical data are drawn from this source. Interviews were used to supplement and extend information from the annual reports. Open-ended telephone interviews were carried out with two representatives of the company’s upper management; two representatives of employees from cockpit and cabin crew, respectively, who also represented their respective local trade unions; one representative from the trade union centrally to which the local trade unions are members; and one former CEO of a competitor airline on general trends in the industry collected in a related project. The change in the case company’s business model and employment relations from about 2012 has resulted in less openness on the part of the company and difficulties in obtaining interviews with representatives of the management. Information from the various employee groups was marked by the tense situation that has emerged after the company changed its employment relations when the interviews were carried out, but information from the different employees is in agreement as to the situation in the company from the start of the low-cost business until about 2012. Information obtained through interviews is consistent with information given in annual reports. Because employment relations, in particular, have become a sensitive topic for the company, data from all the interviewees are presented in an anonymous manner[2].

Because of the company’s success over the years, and, more recently, due to its controversial policies, it attracts wide attention and is extensively covered in mass media. This state of affairs has produced rich material on the company from external observers as well as statements from management representatives that are hard to obtain otherwise. Thus, information provided from these additional types of source has made it possible to develop a closer familiarity with the case.

For the case analysis, two dimensions suggested by literature were selected to answer the research question: the case company’s cost competition model and its employment relations. The tactic used was to compare these two dimensions with a construct of the LCC competition model and a construct of the national system of

Conflicting competitive and national institutional logics*The low-cost carrier competition model*

For civil aviation, the implementation of the single market in the European Union (EU) in 1993 implied “open skies”. Airlines from member states could, from that point in time, operate with full traffic rights between two points within the EU, even on EU routes entirely outside their own country (Doganis, 2010, p. 53)[3]. This opened up for a new type of player – the low-cost airline. The low-cost airline’s new product “low fares, no frills” proved to be so successful that by 2008, they held a 30 per cent share of the market (DLR, 2008, p. 16), and, at the same time, their head-to-head competition changed the rules of the game for the entire aviation industry. The LCCs’ red ocean strategies have created a constant pressure industry-wide to lower costs (Turnbull *et al.*, 2004; Hunter, 2006). Specific features of the LCC business model, such as short- to medium-haul flights and point-to-point operations, provided this type of airline with a competitive edge to the extent that also full-service carriers (FSCs) are forced to use cost-cutting strategies.

Typical industrial characteristics, such as the production of large volumes to spread fixed costs over more units of output, make it possible for LCCs to reduce costs to a greater extent than FSCs due to standardization. Imperative in the low-cost game is the relentless search for ways to minimize costs. To a large extent, competitors emulate each other’s practices, which has resulted in accepted sets of “best practices” such as the use of secondary airports, high seat density, operating new and a single type of aircraft, online distribution, no seat assignment, etc. Estimates suggest that the zealous quest for cutting costs has allowed LCCs to reduce unit costs per available seat kilometre by 30-60 per cent more than traditional full service carriers (Doganis, 2010, p. 46).

Unit costs are a critical driver, and because airlines have tended to target the labour component of total costs (Bamber *et al.*, 2009), employment relations are under particular pressure. Early on, labour became part of LCCs’ cost-cutting strategies (Turnbull *et al.*, 2004; Doganis, 2010, p. 115). One reason is that labour accounts for a significant proportion of the structure of operating costs and is also one of few costs under direct management control, unlike fuel, airport charges, etc. Another reason may be related to the fact that the management considers labour rather as a cost than as a partner for producing value (Bamber *et al.*, 2009). The effect is that a large majority of LCCs offer poorer pay and working conditions than FSCs (Hunter, 2006, p. 319; Pate and Beaumont, 2006, p. 325). As a result, labour costs in the LCC business have dropped dramatically (Bamber *et al.*, 2009, p. 64). By 2006, labour, on average, made up about 25 per cent of total operating costs for European airlines, but for LCCs, labour accounted for only about half of that (Doganis, 2010, p. 99).

Thus, as a result of cost-cutting strategies, working conditions in aviation have tended to be less pay for more work. Tougher employers and cost-competitive strategies have led not only to lower salaries and fewer benefits but also to an increased workload. According to one study, the monthly hours of flight crews in LCCs were 10-35 per cent higher than those in FSCs. The reasons for this are that work patterns have become more intense as a result of inadequate roster systems, and employees are forced to work on an irregular basis at the same time as days off and vacation entitlements have been reduced. The restructuring of work and employment also involves more functional

flexibility and multi-tasking, such as flight crew cleaning aircraft. Moreover, the extensive use of contingent or fixed-term contracts and the increasing use of out-sourcing strategies allowing reduced staffing have decreased the level of job security, particularly in the LCC segment (Hunter, 2006, p. 319).

Deteriorating working conditions are in many cases reflected in companies' employment relations and HRM policies. These are typically referred to as hard or low-road employment relations (cf. Harvey and Turnbull, 2010; Bamber *et al.*, 2009), suggesting that management practices are characterized by control and command *vis-à-vis* employees and focus on cost containment rather than resource development. In the same vein, low-road employment relations often involve an antagonistic relationship with unions or union avoidance. According to the International Transport Workers' Federation's survey, Ryanair is one of a few airlines in Europe that does not recognize a union for collective bargaining and tries to avoid unionization via suppression. The preference of leading LCCs to locate their headquarters in LMEs is highly indicative of the cost-reducing strategies that dominate the LCC segment. This reason was even explicitly stated by easyJet: less active regulation and more liberal aviation and labour markets were the reasons it was launched in the UK (Saka-Helmhout *et al.*, forthcoming)[4]. Typically, in the UK, as well as in Ireland, collective bargaining has been dismantled and trade unions weakened (Bamber *et al.*, 2009).

The national system of employment relations

Emergent trends in work and employment relations in the airline industry form a strong contrast to values and principles governing labour regulation in Norway. Lower job security, wage cutting, the fragmentation of employer–employee relations and adverse union relations are in direct conflict with traditions in the Norwegian labour market that are based on values such as social equality, collectivism, reciprocal recognition and respect. The enforcement of these values as well as a high level of protection is secured through labour law and a comprehensive collective bargaining system – the so-called Basic Agreement[5]. There are several characteristics that distinguish this bargaining system. First, it is created as a tripartite system, which means that wage negotiations are strongly linked to welfare which is funded by tax and which results in relatively high total labour costs. Second, it has a dual structure: negotiations take place at both the sector and the company levels[6]. Typically, general wage and working conditions can be traded for improved welfare and income distribution in accordance with norms of social equality (Hernes, 2006). At the firm level, wage bargaining can take into consideration company-specific conditions, a circumstance which makes the system less rigid and more flexible to the need of adapting to changes (Moen, 2011).

Moreover, collective agreements include the principle of employee rights of information, representation and co-determination (Løken and Stokke, 2009). Employers are required to inform and consult unions about company restructuring. For example, local unions have to be consulted in cases of layoffs and dismissals. These principles are not unique to Norway, but, in contrast to most other countries, the principle of co-determination has evolved into employment relations characterized by dialogue and a high degree of confidence in large sections of Norwegian business. Common interests and reciprocal benefits based on cooperation and compromises rather than distrust and hostility have become a hallmark of industrial relations in Norway (Gustavsen, 2006, p. 211).

Unions' policies of broad and active participation bolster the cooperative relationship between employers and employees, which is facilitated by firm-level representation on the board of directors. Employees' active participation in decision-making processes has induced a positive attitude among unions towards innovation and technological change, rendering a relatively high level of acceptance of company restructuring. In the same vein, recognition of mutual dependence has incited employers to invest in human resource development. In fact, Norwegian employers are ranked top in the Organisation for Economic Co-operation and Development area with regard to investment in continued training and education (Moen, 2011, p. 177). Although union density on the national and industrial levels is somewhat lower in Norway than in the other Nordic countries, Norwegian unions are found to be more influential due to the nature of industrial relationships in terms of a tighter, more reciprocal relationship with management (Svalund, 2013, p. 3).

Thus, to a large extent, the national system of employment relations in Norway has developed collective and integrative organizations characterized by a high level of authority sharing as described above. In this way, the boundaries of the system of employment relations have been expanded to include new capacities for action beyond its original intention (cf. Jackson, 2010). Recent research also provides evidence that companies marked by a high level of integration and learning capabilities are more widespread in the Nordic countries than in other EU countries (Kristensen, 2011; Lorenz and Valeyre, 2005). Furthermore, recent research demonstrates that "active and learning organizations" characterized by a high level of employee discretion and learning constitute an institutional comparative advantage in the Nordic countries (Kristensen, 2011).

Norwegian Air Shuttle – the construction of a low-cost carrier

Norwegian Air Shuttle was recast as an LCC in late 2002[7]. Ten years later, the company was ranked as the third largest LCC in Europe. This achievement is a result of organic growth: from carrying 1.2 million passengers in 2003 to 17.7 million in 2012. In 2012, its 68 aircrafts served 359 scheduled routes to 121 destinations across Europe and parts of the Middle East and North African region, serving both the business and leisure markets. This year, 70 per cent of its market growth took place abroad. The establishment of eight bases outside Norway has spurred its international expansion and is evidence of its global growth ambition (Annual Report, 2012)[8].

Financially, Norwegian Air Shuttle also represents a success story. After the airline went public in 2003, its market capitalization on the Oslo Stock Exchange multiplied several times[9]. As many LCCs fail, Norwegian Air Shuttle's growth is remarkable in its own right. Germanwings, also established in 2002, had, by 2012, carried less than half the number of passengers as Norwegian Air Shuttle (7.8 million; www.germanwings.com), despite the fact that Germany makes up the second largest aviation market in Europe (Barry and Nienhueser, 2010). Norwegian Air Shuttle's growth can rather be compared with that of Air Asia, which, in 2012, carried 19.6 million passengers (Air Asia, Annual Report, 2012). Air Asia, which was also established as an LCC in 2002, is the leading LCC in Southeast Asia and is considered one of the most successful examples of the low-cost model in the airline industry (Poon and Waring, 2010).

Norwegian Air Shuttle's competition model

Norwegian Air Shuttle's low-cost business model shares the basic features of the low-cost industry, as it was pioneered by the US-based Southwest in the 1970s (DLR, 2008; Pate and Beaumont, 2006; Hunter, 2006). Its products are largely based on typical LCC best practices, such as short- to medium-haul flights, point-to-point fares, single class, no in-flight services, no interlining and direct and internet sales. Over time, its standard product has been supplemented by additional products and services at extra cost. In addition to affordable fares, Norwegian Air Shuttle markets service quality in terms of punctuality – customer value – as its trademark.

Typical of LCCs, Norwegian Air Shuttle's main competitive strategy has been a relentless effort to reduce unit costs (Table I). From 2002 to 2012, unit costs decreased from NOK 0.85 to 0.45, and by 2009, the company declared cost leadership in its primary markets (Annual Reports, 2002-2012). A broad set of strategies across functions and practices underlies this endeavour: the company operates a homogeneous and young fleet, which with increasing fuel prices has become of crucial importance[10], and it has outsourced a number of tasks to the extent that ground operations and administrative costs have been substantially minimized.

A key tool for cost-efficient operations has been the extensive use of information technology (IT), suggesting that automation as a means to increase productivity has constituted an important strategy for reducing costs. The company has invested heavily to optimize these functions. To this aim, a separate IT department was established with the mission of continuously upgrading and optimizing IT systems and routines as well as identifying new areas for deploying IT. The deployment of IT runs across all types of functions and practices and comes out as a firm characteristic. Internet sales were taken into use right from the start as well as ticketless travel, and as the first in the world, in cooperation with the national ICT company Telenor, Norwegian Air Shuttle introduced ticket sales via SMS. In 2007, it introduced cell-phone coverage and internet connectivity at its major airports and automated check-in kiosks. In 2011, as the first airline, free high-speed wireless broadband on board was introduced (Annual Report, 2011). Not least has the use of IT been of vital importance for minimizing administrative costs, for increasing the efficiency of finance and accounting, for route and staff planning and for HRM in providing information on logging attendance and vacations.

But Norwegian Air Shuttle's business model differs in two important ways from dominant LCC practices in Europe: its use of primary airports[11] and its employment strategies.

Indicators	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Passengers (million)	1.2	2.0	3.3	5.1	6.9	9.1	10.9	13.0	15.7	17.7
Number of routes	18	41	50	86	132	170	206	249	295	308
Number of destination	18	29	36	57	70	87	93	97	114	121
Number of aircrafts	8	12	14	22	33	40	46	53	62	68
Man-year	351	434	536	638	1,143	1,485	1,781	2,137	2,435	2,890
Passenger/man-year	3,419	4,608	6,156	7,994	6,036	6,128	6,120	6,083	6,448	6,125
Block hours	5.4	7.6	9.1	10.4	10.3	10.2	10.6	10.9	11.0	10.9

Table I.
Norwegian Air
Shuttle's operating
performance
2003-2012

Source: Norwegian Annual Reports, 2003-2012

Employment relations

In view of the fact that labour costs constitute a major factor for competitiveness, it is an interesting finding that Norwegian Air Shuttle's employees are comparatively well paid and enjoy relatively good working conditions. Even by domestic standards, Norwegian Air Shuttle's employees are paid well, with flight and cabin crew having salaries on a level with SAS. At the start of their career, cabin crew can even earn more than their counterparts in SAS (interviews). On a worldwide benchmark, Norwegian Air Shuttle is ranked as having the second highest salary cost in this industry ([Annual Report, 2011](#)). With respect to working conditions, flight crew benefit from favourable rosters, which provides predictability as to working hours ahead and allows the company to simplify the balancing of working and family life (interview). In an industry like aviation, this type of working time organization is highly valued. As to the workload, the company requires less than regulation permits. The European Agency for Civil Aviation (EASA) sets yearly block hours per employee to be 900. Average block hours in Norwegian are currently 700-750 (interviews). Representatives of employees express a high level of satisfaction with their work, and one characterized the work at Norwegian as "having been part of a fantastic journey" (interviews).

Norwegian Air Shuttle's employment relations have aligned with the traditions of the national system of industrial relations. This implies, among other things, that unions – and Norwegian Air Shuttle has a multi-union structure of employee representation – have played an important role in improving salaries and working conditions. One example is that the unions were able to negotiate the favourable roster, despite the fact that this type of scheduling limits the management's operational flexibility. The favourable roster was traded in exchange for longer working hours as a result of changes in the EU regulatory framework in 2008. However, in the exchange of power between management and unions, employees have also had to make concessions; one example being that cabin crew have accepted flexibility in their job tasks, as they are responsible for cleaning the aircraft on short-haul flights (interview).

Overall, company-level negotiations have been embedded in a company culture largely marked by cooperative relations. An incident at the beginning was decisive in creating a sort of constitutional order at the workplace based on trust and reciprocal respect. Threatened by bankruptcy in 2003, employees agreed to cut their wages and, in addition, worked excessively to avoid closure (interview). This situation created a special "contract" between management and employees and a sense of "us" epitomized by the CEO knowing the first name of all employees in the first years of operation. The "by sticking together we'll make it" belief provided a platform for tight relations (interview). So far, no conflicts have ended in a strike, and the fact that the company has experienced strong growth, providing job opportunities and promotion, has worked to effect a reduction in tensions. The management's sensitivity to the fact that any disruption to services can be extremely costly in both the short- and long-term perspective has played a role as well.

The company's high-road HRM policies, which are oriented towards both human capital and human process advantage (cf. [Harvey and Turnbull, 2010](#); [Bamber et al., 2009](#)), have worked in the same direction. The first area involves both health and educational strategies. A prioritized goal is to reduce sick leave by getting people back to work quickly through adaptive and protective measures. Despite the availability of free public health care, the company purchases services from a private health company

to secure employees' instant assistance. To recruit and retain people, the company has developed a comprehensive apprentice programme for cabin crew, customer services and marketing, which was approved by public authorities in 2005. The human process advantage area involves training. In this field, the company's investment surpasses what is legally required to increase the quality of health, environment and safety (HES) as prioritized areas by continuously refreshing routines and practices (Annual Reports, interviews).

National institutions and competitiveness

Norwegian Air Shuttle's employment relations have aligned with national institutional settings, but beyond showing how institutions have influenced the company's employment strategies and practices, this paper will also argue that distinct national employment relations have played a role in the way it has developed firm-specific, cost-reducing strategies. As mentioned, the automation of functions and activities forms an important part of the company's cost cutting, but the support IT provides is not sufficient to produce the desired results (cf. *Ryan et al., 2010*): an increase in productivity also depends on employee and aircraft productivity. A standard way to measure staff efficiency in aviation is the number of passengers per employee. As *Table I* shows, employee productivity has more or less increased continuously despite years of substantial capacity expansion. From 2003 to 2011, it more than doubled.

Aircraft utilization is usually measured as block hours per day. As *Table I* shows, the number of block hours has likewise steadily increased to a level of approximately 11. The figures indicate that, by international standards, Norwegian Air Shuttle demonstrates strong competitiveness in terms of overall capacity utilization, as shown in *Table II*. Arguably, a high level of capacity utilization is a result of continuous improvement of routines and practices. An activity such as flight departure can serve to specify this issue. A critical condition for a high level of block hours is rapid turnarounds at the gate. Turn-over time in Norwegian Air Shuttle is now calculated at 20-25 minutes (interviews). This is a demanding operation, as flight departure involves several functions and types of personnel and requires a high level of coordination. Success depends on everybody knowing exactly what to do to achieve efficient coordination. To this end, all employees are drilled in routines when starting their work, and to ensure that they meet the standards required by the company they all undergo regular training and are also frequently rehearsed in their routines (interviews). Management itself states that training is important for making working practices and conditions "fully up to speed", which has helped the company to manage growth (*Annual Reports 2010, 2011*). However, achieving high levels of productivity by resolving coordination problems across functional work areas is not unknown in the aviation industry. A study of the American airline industry found that substantial productivity growth was, in a large part, driven by increases in labour productivity. The airlines with the highest labour costs were also found to have lowest total costs, among these Southwest

Table II.
The number of block
hours per day for
Norwegian Air
Shuttle,
Germanwings,
EasyJet and Ryanair
in 2007

Norwegian air shuttle	Germanwings	EasyJet	Ryanair
10.3	9.23	9.24	9.71

Sources: DLR (2008); Norwegian Annual Report (2007)

(Bamber *et al.*, 2009). In fact, this has been identified as having been imperative to the success of Southwest Airlines (Gittell, 2003).

As has been the case in Southwest Airlines, cross-functional coordination has been an important element in Norwegian Air Shuttle's strategies to minimize costs. However, whereas Southwest Airlines relies on a commitment approach in its employment relations, employment relations in Norwegian Air Shuttle have been extended to make active use of employees in improving routines and practices. Given discretion over certain task organizations and performances, employees have contributed actively to increasing efficiency in operations. According to Norwegian labour law, employees are to be consulted in matters concerning company restructuring, HES issues etc., and unions also have the right to intervene in matters related to training. To improve standards in all these areas, the company deploys different sets of tools: risk analyses, the review of workplaces and benchmarking between bases. But in these types of activities, the company's employees are not only consulted: on the basis of accumulated knowledge and experience, they also take an active part in increasing efficiency and improving standards. Such active involvement spans from the improvement of daily routines, the design of the interior of new aircraft and the organizing of work tasks to the planning of the curriculum of apprentice programmes (interviews, Annual Reports). Thus, the *active use* of employees' competence and knowledge, often tacit, has been significant for improving productivity.

In Norwegian Air Shuttle's annual reports, this type of workplace culture is referred to as "fruitful arenas for learning and professional development of all levels of the organization" (Annual Report, 2011), and the company ascribes its position as cost leader to its dedicated and hardworking employees (Annual Report, 2011)[12]. Operating in an institutional setting characterized by collectivism and a strong cooperative orientation has obviously facilitated the development of firm-specific capabilities in terms of organizational learning, enabling the company to build competitive strength in a highly competitive market in which few players are making profits.

Conclusion and further research

The motivation for this paper is the fact that Norwegian Air Shuttle, an LCC embedded in a CME and a high-cost country, is prevailing in the low-cost market. From the point of view of VoC/comparative institutional literature, the case represents a contradiction. Both traditions assume CMEs to not be supportive of cost-based competition, particularly as systems of collective bargaining and labour market regulations constrain employers' discretion and the need for rapid adjustments.

Findings from the analysis of the case company show that the LCC fully complies with the national system of employment relations in terms of payment, representation and cooperation. But beyond aligning with the national system of industrial relations, the analysis of the case company also discloses that the airline's capability to constantly reduce costs was, to a large extent, based on its system of employment relations and HR policies. Two different types of strategies were discovered in this respect:

- (1) resolving coordination problems across functional work areas; and
- (2) the active involvement of employees in improving organizational effectiveness.

Rather than cutting wages as a means to reduce costs, the case company instead creatively utilized its system of employment to increase productivity and was thus able to constantly lower unit costs.

Extant research shows that an active and learning type of organization is more widespread in the Nordic countries than in other European countries, and that this type of organization represents an institutional competitive advantage (Kristensen, 2011; Lorenz and Valeyre, 2005). However, whereas this claim is made valid for knowledge-based enterprises, this case study suggests its validity also for routine-based service companies participating in cost-based competition. To some extent, this finding is corroborated by other studies on aviation: a high-involvement work organization makes more productive use of employees' skills and abilities. It is not the level of human capital alone but the way that it is used that creates higher productivity and which can therefore yield higher wages (Bamber *et al.*, 2009). Grounded on this case study and other studies that support the findings, it is reasonable to argue that CMEs can provide institutional regimes supportive of cost-based competition. This finding also contradicts views pre-supposing that increasing globalization will probably reduce the comparative economic performance of CMEs or force them to adjust to converge towards a model typical of LMEs.

Although the case study findings support the VoC and comparative institutional view that firms continue to be influenced by their national institutional context, it does not, however, support the applicability of the dichotomy model as defined by VoC. As this study and others (Kristensen and Morgan, 2012; Jackson, 2010; Campbell and Pedersen, 2007) suggest, important dimensions – such as actors' capacity for making novel use of institutions – are overlooked when analysing the role and behaviour of institutions. To further extend the theory inherent in VoC/comparative institutional literature, connections between institutions and shifting markets and environments need to be examined in more detail to explore the gap between institutional context and intentional action. As this case study demonstrates, institutional arrangements, assumed to be constraining, can provide conditions that enable economic actors to reach their goal. It also shows that the boundaries of institutions can be extended and that institutions are less deterministic and more ambiguous than previously conceived.

Notes

1. The competition model is, in this context, defined as “idealized combinations of particular kinds of trade-offs that firms are encouraged by the dominant institutions governing economic activities to make when competing in market economies” (Whitley, 2010b, p. 366).
2. In December 2013, an employee was summoned to the leadership with the threat of losing his job for having talked to a journalist about the general risks of buying a brand new aircraft type (Dreamliner).
3. In 1997, cabotage services were deregulated, i.e. restriction of services to that of a country's own transport services. Although air traffic was deregulated, civil aviation is still a highly regulated industry, subject to both national and transnational regulation. However, in Europe, the European Agency for Civil Aviation Safety (EASA) is gradually taking over the regulatory role regarding aircraft security, certification of flight and cabin crew, education and training.
4. EasyJet has later changed its HRM and employment strategies.

5. The bargaining system is strictly regulated by the Basic Agreement between the Norwegian Confederation of Trade Unions and the Confederation of Norwegian Enterprises, which forms “the constitution of labour”.
6. Although aviation is exempted from the national-level bargaining system, to prevent the whole sector from being paralyzed in case of strike, negotiations take place within the framework of the employers’ national federation and the trade unions centrally.
7. Norwegian Air Shuttle was established as an autonomous legal company in 1992 when a group of pilots and a business lawyer, the current CEO of NAS, bought Busy Bee, a subsidiary of the airline Braathen. For the first 10 years, Norwegian Air Shuttle was operating a small number of small aircraft in the western part of Norway on a licence contract with Braathen.
8. In 2008, Norwegian Air Shuttle entered into a contract to buy 42 Boeing 737-800s; in 2011, the purchase was increased to 78 Boeing and three Dreamliners. In 2012, the company entered into a contract to buy an additional 222 aircraft, the biggest aircraft purchase in European aviation history.
9. To indicate this growth, we can point to the fact that the price of one share increased from NOK 29.567 in 2003 to NOK 220.1 in April 2013. The increase from 2012 to 2013 was 147.37 per cent (dn.no, 18.4.13). Ownership is concentrated in Norway (80%) (*Annual Report, 2010*).
10. In 2012, the average age of its aircraft was 4.3 years, and, until this year, Norwegian Air Shuttle’s fleet consisted of only Boeing 737s, which is considered an extremely efficient aircraft in terms of fuel and reliability of service, and, together with lower training and maintenance costs, it is highly cost efficient.
11. Operating from primary airports has impeded neither high capacity utilization nor high level of punctuality and regularity (*Annual Reports*).
12. Typical of its creative way of making use of institutional resources, the company has also been able to draw on institutional resources external to its own organization. Public authorities have approved its apprentice programme and the public education system is even directly supporting it by cooperating in carrying it out.

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