CORPORATE GOVERNANCE AND STRATEGY: 
THE CASE OF INTERNATIONAL AIRLINES

This paper is about the international similarities in systems of corporate governance. We argue that systems of corporate governance may be conceived in generic terms in a manner that transcends national contexts. We characterize systems of governance as configurations of incentives, authority patterns and normative imperatives. We propose that systems of corporate governance in turn encourage and constrain the strategy formulation and implementation process. In short we propose that systems of corporate governance fit particular strategies but not others. The theoretical underpinnings of the argument borrow from agency theory regarding the incentive effects of governance and institutional theories of organization regarding the structure of authority and legitimacy in organizations.

To ground the argument we show how each governance system supports a particular strategic choice in the international airline industry. International airlines are simultaneously subject to both global and local institutional and regulatory imperatives. In fact international conventions make the national identity of a firm a paramount concern. However, the industry is globally subject to institutional change in the form of deregulation, international liberalization of bilateral air service treaties between states and the creation of multilateral free-trade areas or open skies. These institutional changes have had a material impact upon the performance of airlines resulting in financial distress, bankruptcy and failure for both incumbent and new entry airlines and spectacular growth and profitability for others. In response to these environmental changes airlines have begun to adapt their strategies and governance structures. Moreover, institutional change has precipitated the diffusion distinct business models such as networked ‘hub & spoke’ and low-cost ‘point to point’ approaches. The developments in institutional context and corporate governance suggest fruitful ground for exploring the governance-strategy linkage.