

Governance structures and the market orientation of airports in Europe's peripheral areas

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Abstract

This paper investigates the relationship between governance structures and the market orientation of airports. The focus is on Europe's peripheral areas, where airports tend to be publicly owned and operated as an independent entity or as part of a regional or national airport system. This paper finds that market orientation is significantly higher at independently operated airports compared to system-operated airports and that independent governance structures, market opportunities and competitive intensity have a significant positive effect on airport market orientation.

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1. Introduction

The provision of air services in Europe's peripheral areas was traditionally protected because in exchange for monopoly rights on dense and profitable routes, national airlines or their subsidiaries would serve lightly populated and unprofitable routes such as those serving Europe's peripheral areas (Williams, 2002). European air transport markets were deregulated by April 1997, and although some routes in Europe's peripheral areas are protected by Public Service Obligations, airlines have more freedom to enter and exit markets. This means that market forces rather than public service considerations increasingly dictate the decisions of airlines serving peripheral areas (Reynolds-Feighan, 1995).

Market advocates support market-orientated management practices as a means of satisfying airline customers arguing that airports that are more market orientated than rivals will perform better. The relationship between market orientation and the performance of airports in Europe's peripheral areas, for example, was investigated by Halpern

and Pagliari (2007) who, based on a survey of the opinions of 84 airport managers, found that market orientation has a significant positive effect on performance. Advani and Borins (2001), using data from a worldwide sample of 201 airports, found that privately owned airports have significantly higher levels of market orientation than publicly owned airports and that private ownership has a significant positive effect on market orientation, demonstrating that airport ownership can influence the extent to which an airport is market orientated which, as Halpern and Pagliari found, can affect performance.

While airport privatisation is becoming more common in Europe (Bentley, 2002), very few airports in Europe's peripheral areas have followed the trend. Public ownership, at national, regional or local level, is still the norm so the public versus private debate is not particularly relevant. Instead, airports in Europe's peripheral areas can be compared according to whether they are operated as an independent entity or as part of a regional or national airport system (Pagliari, 2005).

This work investigates the relationship between governance structures and the market orientation of airports in Europe's peripheral areas, and in particular, investigates differences in the market orientation of independently

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operated airports versus system-operated airports. The paper also investigates the effect that independent governance structures have on the market orientation of airports.

2. Background

2.1. Market orientation

The marketing era emerged in the early 1950s as companies began to realise that efficient production and extensive promotion of products did not guarantee that customers would buy them (Dibb et al., 2001). Instead, businesses found that they had to determine what customers wanted before producing it. This led to the evolution of the marketing concept, a philosophy of business management that is the cornerstone of marketing thought (Jaworski and Kohli, 1993).

The main weakness of the concept is that it is based on idealistic corporate policies and has limited practical or operational value. This is where market orientation becomes important because it contrasts the philosophical value of the marketing concept with its implementation (MacCarthy and Perreault, 1984). Kohli and Jaworski (1990) provided one of the earliest attempts to define and measure market orientation. Their definition was based on the results of 62 field interviews with managers in diverse functions and organisations who were asked to comment on the importance of the three core themes that underpin the marketing concept: customer focus; a coordinated approach to marketing; and, a focus on profitability.

In light of their findings, Kohli and Jaworski (1990) defined market orientation as: “the organisation-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organisation-wide responsiveness to it”. Their definition reflects the first two core themes of the marketing concept; customer focus and a coordinated approach to marketing but with an emphasis on gathering, disseminating and responding to market intelligence. The third theme; a focus on profitability was rejected on the basis that it was considered to be a result of market orientation as opposed to being part of it.

Subsequent studies by Jaworski and Kohli (1993) and Kohli et al. (1993), led to the development of a number of propositions that can be used to measure the market orientation of an organisation including: we do a lot of in-house market research; we meet with customers at least once a year to find out what products or services they will need in the future; we have interdepartmental meetings at least once a quarter to discuss market trends and developments; and, when we find that customers would like us to modify a product or service, the departments involved make concerted efforts to do so. The propositions scored on a 5-point Likert scale see responses ranging from strongly disagree to strongly agree.

2.2. Governance structures

National ownership is the norm for airports in Europe’s peripheral areas with ownership dominated by a small number of very large national systems. These systems were traditionally owned by the government and operated by government agencies such as a Civil Aviation Administration and this is still the case in Greece where the Hellenic Civil Aviation Administration operates airports outside of Athens. The trend in recent years has been for governments to appoint publicly or privately owned airport management companies to operate the system (Isavia in Iceland, Avinor in Norway, Luftfartsverket in Sweden, Finavia in Finland, Aeroportos de Portugal in Portugal, and Aeroportos Españoles y Navegación Aérea in Spain). Similar systems exist at a regional level. For instance, ten airports in the Highlands and Islands of Scotland are operated as a regional network by Highlands and Islands Airports Limited that is owned and funded by the Scottish Executive.

Airports that are not operated as part of a regional or national airport system are normally operated as independent entities. This includes airports that are publicly or privately owned and are operated by local authorities, chambers of commerce and industry, private interests, or a combination of the three. In Sweden, 29 regional airports are owned and operated by local authorities whilst a small number are owned and operated by private interests. In France, regional airports tend to be owned by local authorities and operated by Chambers of Commerce and Industry but some local authorities have appointed private management companies. In Northern Ireland, airports are owned and operated by local authorities or by private interests. In the Republic of Ireland, three state-owned airports, Dublin, Shannon and Cork, are operated by a private management company, the Dublin Airport Authority, with Shannon and Cork Airports operated under the auspices of their own Airport Authority Board. Other airports are owned and operated, at a local level, by a mixture of public and private interests.

Operating airports as regional or national systems has a number of advantages. Pagliari (2005), for example, argues that it allows smaller and less profitable airports to be cross-subsidised by larger and more profitable airports in the group reducing reliance on subsidies from local communities. It also allows for the harmonisation of technical and safety standards; and, reduces overhead administration costs as many of these functions are likely to be carried out by a head office. Operating airports as a system is also justified by the need to provide accessibility and to promote regional economic development in peripheral areas (Dion et al., 2002).

Despite the advantages, the centralised nature of an airport system is likely to lead to features that, compared to those of independently operated airports, affect their ability to be market orientated. The typical characteristics of system versus independently operated airports are listed

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