



TAP Air Portugal

Dynamic Capabilities in the Summer of 2022

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Dissertation submitted in partial fulfillment of requirements for the MSc in Business, at the Universidade Católica Portuguesa, 2023.

Abstract

This dissertation focuses on the analysis of the major passenger carrier in Portugal, TAP Air Portugal, throughout the Summer of 2022. It is carried out in the form of a case study and a relation with relevant theoretical frameworks is established to better understand what went wrong for the airline in the course of the targeted period.

After the Covid-19 crisis, the world was at a halt and the aviation industry was no exception. In such a demanding and fast-paced industry, high analytical and adaptability skills are a must-have capability for any firm to succeed, especially for airlines. Dynamic capability is the name of the game and it is the focus of this thesis, to understand what failed during this period and what is the core of the problem when it comes to the poor sense of adaptability the airline showed in 2022.

The conclusions taken from this dissertation are to help understand what TAP Air Portugal did wrong and what could have been done better to avoid such difficulties in a forecasted challenging period. These findings are to be used by students pursuing courses in management and strategy, to better understand how to adapt and manage resources in fast-changing industries like aviation.

Title: Tap Air Portugal - Dynamic Capabilities in the Summer of 2022

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Keywords: aviation; dynamic capabilities; strategy; airline; adaptability; environment; competitors; stakeholders; resources.

Abstrato

Esta dissertação centra-se na análise da maior transportadora de passageiros em Portugal, a TAP Air Portugal, ao longo do Verão de 2022. É realizada sob a forma de um estudo de caso e é estabelecida uma relação com referências teóricas relevantes para melhor compreender o que correu mal com a companhia aérea durante o período visado.

Após a crise da Covid-19, o mundo ficou paralisado e a indústria da aviação não foi exceção. Numa indústria tão exigente e de ritmo tão acelerado, elevadas competências analíticas e de adaptabilidade são essenciais para o sucesso de qualquer empresa, especialmente para as companhias aéreas. Capacidade dinâmica é o nome do jogo e é o foco desta tese, compreender o que falhou neste período e qual é o cerne do problema no que diz respeito ao fraco sentido de adaptabilidade que a companhia aérea demonstrou em 2022.

As conclusões tiradas desta dissertação servem para ajudar a compreender o que a TAP Air Portugal fez de errado e o que poderia ter sido feito melhor para evitar as dificuldades num período desafiador que já se previa. Estas descobertas serão utilizadas por estudantes que frequentam cursos de gestão e estratégia, para compreender melhor como adaptar e gerir recursos em indústrias de rápida mudança, como a aviação.

Título: *Tap Air Portugal - Dynamic Capabilities in the Summer of 2022*

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Palavras Chave: aviação; capacidades dinâmicas; estratégia; companhia aérea; adaptabilidade; ambiente; competidores; *stakeholders*; recursos.

Acknowledgments

I would like to thank my supervisor, Professor Nuno Cardeal, for his dedication, availability, and guidance throughout this challenging process. His guidance and support were vital for the completion of this Dissertation. It was a pleasure and a privilege.

I would also like to thank my friends and family for the support they showed me throughout this important stage of my life.

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I – Introduction

The aviation industry is one of the most challenging and fast-paced environments a firm can be in. In this case, we are analyzing the performance of the major passenger carrier in Portugal, TAP Air Portugal, in a very challenging period for the airline, the Summer of 2022. Throughout this period, the airline faced several obstacles and situations that could only be overcome with a good adaptation ability. This ability a firm has to adapt to crisis situations and unforeseen obstacles is called Dynamic Capabilities and it is the main focus of this thesis.

An analysis of the airline's resources, dynamic capabilities, and stakeholders is carried out to try to understand what could have been done better to prevent such a faulty period in the history of the company. With an analysis of the Resource-Based View, we can better understand what are the strengths of the airline and how they can be used to its advantage, and to create a competitive advantage in such a demanding industry. The Dynamic Capabilities framework is also analyzed and it is from its conclusions that we can understand the basis of the problem the airline faces throughout this Summer period. Lastly, an overview of the airline's stakeholders is carried out from Mendelow's matrix so that we can better understand how dependent TAP's operation is on its stakeholders, something that is common in the aviation industry but a good management capability has to be shown to successfully carry out air operations.

This dissertation is written in the form of a case study so that we can put together the analysis result of all these theoretical frameworks and apply them to management, strategic, and financial data from the Airline. From this, we can conclude the airline must change and adapt its processes and that it possesses the resources to do so.

II - Research Notes

1 - Resource-Based View

One of the ways a firm has to be competitive in a given environment is through the resources and capabilities it possesses. Good management and application of these resources are what will

differentiate a successful business from a faulty one. The Resource-Based View framework dictates precisely that, “*The RBV intends to explain the conditions which firms may achieve a sustained competitive advantage based on their bundles of resources and capabilities*” (Barreto; 2010).

Through the paper of Jay Barney, we can have a clear overview of this framework and understand its key factors. Barney presents three key concepts in his paper: firm resources, competitive advantage, and sustained competitive advantage.

The firm resources, according to this framework, give a company the ability to be competitive, in the way that they represent the firm’s identity and value. These resources represent the basis of a business and can take on different shapes and forms, “*(...) firm resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness*” (Daft, 1983). Having clarified the internal focus of the RBV, we are bound to distinguish between Competitive Advantage and Sustained Competitive Advantage, an aspect Jay Barney is very clear on. A firm has a *Competitive Advantage* “*(...) when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitor.*” (Barney, 1991). This means that for a firm to create a Competitive Advantage, it must create a strategy that will generate value for the firm, and said strategy cannot be used at the same time by a competitive firm. This point takes us to the definition of Sustained Competitive Advantage, “*A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy*” (Barney, 1991). These two concepts might seem similar but it is important to differ one from the other, given both of them imply creating value through the implementation of a strategy. The purpose of differentiating one from the other is precisely what makes an advantage sustainable and that is not the amount of time said strategy is successful in creating value, but instead a strategy is said to create sustainable advantage if it cannot be duplicated by direct competitors or rivals, “*However, it is not this period of calendar time that defies the existence of a sustained competitive advantage, but the inability of current and potential competitors to duplicate that strategy that makes a competitive advantage sustained.*” (Barney, 1991).

In addition, a firm's competitive advantage can also come from a firm's ability to present and sustain good financial results, *"(...) a firm that generates more net income than its competitors has a competitive advantage(...)"* (Barney & Mackey, 2018; Peteraf & Barney, 2003). This net income is created by generating economic value from the product or service a given firm is selling, there must be a positive surplus between the cost of the product for the firm and the price the customer is paying for said product, *"(...) a firm generates economic value when there is a positive difference between the willingness of its customers to pay for its products or services and the total cost of producing those products or services"* (Barney; Ketchen & Wright, 2021). According to the definition of sustained competitive advantage stated above, if a firm can present profitable results over time and these results are better than the ones of competitor firms, the firm is said to have a sustained competitive advantage, *"A firm has a sustained competitive advantage when other firms find it difficult, over time, to achieve the same level of economic value created by the local firm."* (Barney; Ketchen & Wright, 2021)

Jay Barney also defends that sustained competitive advantage can come from the culture of a firm. As previously stated, what differentiates a competitive advantage from a sustained competitive advantage is the lack of ability that the competitor firms have to duplicate said strategy. A well-defined unique culture and values can provide a sustained competitive advantage to a firm, *"A firm that has a valuable, rare, and imperfectly imitable culture enjoys a sustained competitive advantage that reflects that culture."* (Barney, 1986). Moreover, some other factors and resources can create lasting competitive advantages, location is one of them and it easily creates a sustained advantage because it is impossible to replicate a geographical location, *"In addition, while a firm with a valuable, rare, and imperfectly imitable culture can obtain sustained superior financial performance, other attributes of a firm, including, perhaps, unique geographical advantages and luck, also can lead to such performances"* (Barney, 1985a).

Although the Resource Based View framework can create awareness of the power and importance that resources have for the creation of value and advantage in a given firm or industry, it is limited. This cannot be applied to fast-changing environments and industries, *"However, the RBV is considered to be essentially static in its nature and inadequate to explain firms' competitive advantage in changing environments"* (Barreto, 2010).

2 – Dynamic Capabilities View

The Dynamic capabilities view can be seen as an evolution of the Resource-Based View framework mentioned above, given it studies the adaptability a given firm has, and its resources, to adapt its strategy and structure the rapidly changing environments and industries. “ Teece et al. (1997) offered what is perhaps the most influential study on this topic. They proposed the dynamic capabilities approach as an extension of the resource-based view (RBV) of the firm (Barney, 1986, 1991).” (Barreto, 2010).

There is a clear distinction between the two frameworks mentioned above and they can be easily distinguished from one another in the paper of Ilidio Barreto, “Resources are “stocks of available factors that are owned or controlled by the firm,” whereas capabilities “refer to a firm’s capacity to deploy resources, usually in combination, using organizational processes, to effect a desired end” (Amit & Schoemaker, 1993:35). In certain industries, firms are required to rapidly change their processes so that they can overcome the challenges and difficulties presented by the environment they are in. This ability to rapidly adapt is called dynamic capabilities and in several industry segments, the possession of this ability dictates the success or failure of a brand or firm. “ Teece et al. (1997:516) defined dynamic capabilities as “the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments.” (Barreto, 2010). Also, in comparison to the RBV, dynamic capabilities cannot be bought like resources can, they have to be built and incorporated into a firm’s DNA so that they can work. Dynamic capabilities are not objects, they are processes and ways of working that when well executed, lead to success. This can only be obtained by the implementation of said processes through the firm's culture, embedding it into their employees and stakeholders. This is a constant and continuous process, it is not a singular moment in a firm’s course, it must be nurtured given that, “ A dynamic capability is the firm’s potential to systematically solve problems, formed by its propensity to sense opportunities and threats, to make timely and market-oriented decisions, and to change its resource base.”(Barreto, 2010).

In addition, Dynamic Capabilities can be measured and separated into levels of performance. It is not a skill that firms either have or not, but is a capability that some firms have more than others. Depending on the period in analysis, a given firm can have variable potential levels, as a firm can be able to adapt its resources and processes in a better way in a specific period

and struggle to perform as well in a distinct one. *“As there can be high or low potential levels, different firms may have different levels of dynamic capability (rather than simply having it or not).” (Barreto, 2010).*

3 – Mendelow’s Matrix

Stakeholders are key players when it comes to the success of an organization. In 1981, Aubrey Mendelow wrote about the importance of stakeholders and how relevant good stakeholder management is to be successful and to prevent unpleasant situations.

Stakeholders are, *“those who depend on the organization for the realization of some of their goals, and in turn, the organization depends on them in some way for the full realization of its goals(...)” (Mitroff & Mason, 1980).* The organization depends on its stakeholders but at the same time, there is a symbiotic relationship, given that the stakeholders also depend on the organization. The key to good stakeholder management is to understand how to deal with different types of stakeholders and clarify what kind of treatment they should be given. In addition, besides making this distinction, some stakeholders have a big amount of power over an organization, and *“These are the stakeholders without whom the organization would cease to exist—the key employee, the sole supplier, the major customer. These are groups of people who are not replaceable.” (Mendelow, 1981).* Additionally and in resemblance with the previously mentioned dynamic capabilities, also stakeholders must be analyzed taking into consideration the environment they are in and the impact this may cause on them, *“Care has to be taken to enable the organization to predict the impact which environmental events, surrounding the powerful stakeholders, will have”.*(Mandelow, 1981).

Advancing a few years to 1991, Aubrey Mendelow presents a matrix where we can relate the power and interest a stakeholder exercises over an organization. This matrix is called the Power/Interest Matrix, also known as Mandelow’s Matrix, and it is used to measure the impact a given stakeholder can have over an organization. Mandelow divides his matrix into four categories: High Interest and High Power; High Interest and Low Power; Low Interest and High Power; Low Interest and Low Power. Each one of these categories has a type of corresponding stakeholder and they should be analysed and managed accordingly. High Interest-Low Power stakeholders should

be kept posted and informed on company issues, even without enough power to make decisions they are important to the organization and should be satisfied. High interest-High Power stakeholders are the most important ones in the organization and should be taken very seriously, given they are very participative in company decisions and have the influence to rapidly implement changes. Thirdly, there are Low Interest-High Power stakeholders, who do not show a lot of willingness to participate in the organization but have the power to do so in case they so wish, are to be kept happy. Lastly, there are Low Interest -Low Power stakeholders, this group is not to be concerned about given they are not relevant to the organization's performance

III – Case Study

1 - TAP Overview and History

During the Second World War, the aviation industry went a long way in developing around the world and Portugal made its move to keep up with this evolutionary trend in 1945. The Portuguese flagship carrier Transportes Aéreos Portugueses was created on the 14th of March under the mandate of Humberto Delgado, whom curiously enough the current Lisbon airport is named after. The historical airline began its operations with two military-converted Dakota DC-3 aircraft making its inaugural flight between Lisbon and Madrid, on the 19th of September 1946. This flight marked the beginning of the Portuguese civil aviation legacy and onboard were 11 passengers besides the flight crew.

The airline was news around the world from a very early stage. On December 31st 1946, the “Linha Aérea Imperial” was created. This route connected Lisbon, Luanda, and Lourenço Marques (current Maputo). This historical connection is worth mentioning because it was the longest route in the world operated by a Dakota DC-3, taking 15 days round trip and 12 stopovers to complete. In 1962, the airline entered the jet era with the arrival of the Caravelle VI-R, and in 1964 the company reached the milestone of 1 million passengers carried. In 1979, the flagship carrier changed its name from “Transportes Aéreos Portugueses” to the one used nowadays, TAP Air Portugal. The beginning of the XXI century dictated a great milestone for the Airline as its world-renowned Engineering and Maintenance unit was officially certified by the Brazilian Civil Aviation Authority (AACV) and by the American Federal Aviation Administration (FAA).

In the year of 2005, the Airline hit 6.5 Million passengers and it was time for a rebranding. TAP introduced the image that we currently see on their aircraft and instead of TAP Air Portugal, the airline is now known as TAP Portugal. A more modern look was adopted to keep up with the times and the Star Alliance partnership was signed, making Tap Portugal a member of the prestige aviation group. The years that followed were filled with the opening of several new routes and fleet renewal, the Airbus A321 was introduced and with the 70th anniversary of the airline in 2015, the airline was privatized. During the same year, the airline signed a major deal with Airbus stating that TAP would be the first carrier in the world to operate the brand-new A330neo in 2018. In 2016, TAP Express was founded, replacing Portugália PGA, and the “Ponte Aérea” between Lisboa and Oporto was established.

The Portuguese carrier, just like the entire aviation industry, went through very harsh times between 2020 and 2022, with the Covid-19 pandemic. In the end, Tap Air Portugal came out on top and was awarded the prize of the safest airline in Europe and 5th safest airline in the world, due to its impeccable performance records and COVID protocols during the pandemic. At present, in 2023, the airline faces a very interesting period due to its financial results and environment within the company. Tap Air Portugal is currently for sale and with very positive results in the last quarter, the next year will be very interesting to watch over for the entire aviation industry and any aviation enthusiast.

2 – Aviation Industry

2.1 – Industry Demand Overview

The aviation industry is a highly dynamic and fast-changing environment. Regarding the airline segment of the industry, companies must have a developed set of skills in order to adapt and overcome any situation that might arise in their path.

In such a volatile environment, adaptability represents a major “must-have skill” in order to survive internal and external threats, “*Bunz and Maes (1998) state this is an era in which adopting to change means survival*”. This idea can quickly be related to the Dynamic Capabilities framework, given that within this operational adaptability, the airlines should possess the dynamic capabilities to easily overcome and address certain changes the industry regularly goes through.

Beyond overwatching and reacting, airlines must have excellent operational planning management, so that these environmental changes do not disturb the healthy course of the airline's daily operational cycle, just like Abudho states, "*Planning is a vital management tool in Airlines as it helps in forecasting and building scenarios for contingency planning due to their very dynamic unstable environments which subject them to both planned and emergent changes*" (Abudho; 2013).

Despite the evident volatility of the environment mentioned above, the industry is also very demanding with regard to timelines "*There is need for zero latency in the changes in the environment*" (Audho; 2013). Aviation demands a fast-paced rhythm from the airlines, meaning a very coordinated operation effectiveness within all the different sectors of the airline, from front-desk staff and ramp agents to pilots. One of the golden concepts of the aviation world is that an airplane on the ground does not produce revenue, the main goal of the airline, besides keeping everything on time, is to guarantee the fastest turn-around time for the aircraft possible. Everything has to happen on the clock.

The main takeaway to retain from the manner this industry operates is that adaptability is key, and how the airlines adapt to these changes mandates whether or not they succeed. There is also a need to differentiate internal from external adaptability, given each of them requires a different type of response. Internal adaptability is the reaction to situations that may arise due to staff or asset management issues. External adaptability is the firm's ability to react and cope with situations that arise from industry agents outside the airline's scope.

In sum, there is a clear recipe for the success of any airline in this demanding industry, at least we can understand the main procedures and concepts the airlines should take into consideration in order to achieve success and positive net worth. A common skill the companies should possess, regardless of their market segment, is adaptability and reactivity to issues in the organization and to any changes in this fast-changing and paced environment, "*The success of a carrier will be determined by not only how much they are able to strategically respond to these challenges but by how fast they respond to these constantly changing forces.*" (Abudho; 2013).

2.2 – European Industry Comeback in 2022

The aviation world suffered a great unpredictable impact with the appearance of the COVID-19 pandemic. Although the world was aware of the virus in late 2019, its effects only started to be felt in early 2020 and the aviation industry took a very big hit.

The years 2020 and 2021 were challenging on the industry, with forbidden air travel and highly restrictive measures, airport runways across the world resembled enormous parking lots for aircraft. Lisbon Airport and TAP Air Portugal were no exception to this dreadful scenario, resulting in great losses to a poorly managed company and early retirement for the most senior pilots of the airline. Despite the evident symptoms of the pandemic still in plain sight and the start of the Ukrainian conflict with Russia, the aviation industry made a great comeback, and air travel numbers increased significantly in 2022.

According to the European Aviation supporting agency Eurocontrol, the industry in 2022 registered 9.3 Million flights, representing 83% of the pre-pandemic era of 2019 and 3.1 Million more flights than the ones registered in 2021, indicating a very satisfactory improvement and ascending tendency.

Although the positive numbers, the industry had to overcome two big setbacks. As of January 2022, a new coronavirus variant resulted in some restrictive measures in air travel, and combined with the increase in infection cases, air traffic in Europe registered a decrease of 10 %, putting the numbers back at 68% of the capacity registered in 2019. This was mostly felt in January and the results at the end of February rose a significant amount to 71 % of the levels registered in 2019. After this small complication, everything pointed for a year with no more setbacks but on the 22nd of February, Russia invaded Ukraine. The airspace over the conflict area closed and the same happened to some close by countries as well, resulting in long re-routings and the loss of several air routes for the operators in Europe and the rest of the world, according to the Eurocontrol report.

The summer of 2022 represented the biggest increase in the European air traffic scenario, registering around 90% of the traffic in the same period of 2019. The problem arising here was the reduced airspace due to the Ukrainian conflict and the increasing energy and oil prices that provoked a significant increase in airline costs, due to the damaged relations of European countries with Russia. Several delays were registered throughout this period, using the ATFM indicator

which is defined as the duration between the last Estimated Take-Off Time (ETOT) and the Calculated Take-Off Time (CTOT).

This positive increase was well received in the aviation world but with it came to light a significant issue from this increased flow of passengers. The airports, aviation staff, and industry-related firms were not prepared for such a high increase in traffic volume throughout the year, much less the major increase witnessed during the summer period, the biggest of 2022, already mentioned above. According to Eurocontrol figures, close to 50% of the ATFM delays registered in European airports were due to “*unanticipated staffing and capacity shortages at airlines, airports, ground handlers and immigration, all of which reduced capacity and brought about cancellations, substantial delays and uncertainty for passengers.* (Eurocontrol; 2022).

The industry recovery continues to be unbalanced and uneven as of the end of 2022 but with good indicators for the following years. In 2023, Eurocontrol is expecting a return of traffic to 92% of the levels established in 2019. This will put the entire European aviation structure to the test, expecting a full recovery to the pre-pandemic values as of 2025.

3 – Industry competition

As mentioned previously, the aviation industry is established in a fast-changing environment. This makes it a competitive industry and turns every strategic and operational decision into a highly crucial one.

Currently, TAP Air Portugal belongs to the Portuguese government and this connection between the flag carrier and the government of Portugal has been a polemic issue in our country's political sphere during the last recent years, mainly after the COVID-19 pandemic. After several years of privatization urged by public opinion, the airline is as of the month of October for sale. Interestingly enough, the main candidates to buy 51% or more of the airline are its main competitors in the same mainline carriers market segment, mentioned below.

3.1 – IAG

After the merger between Iberia and British Airways, the International Airlines Group was founded in 2011. It represents one of the largest airline groups in the world, currently operating a

fleet of 558 aircraft, targeting around 250 airports and taking to their destination an average of 94 Million passengers every year.

The group's business model is strongly based on value creation and choice maximization. This value is created through a very customer-centered strategy, this way ensuring the delivery of a specific and unrivaled proposition amongst all the airlines within the group. In order to carry this innovative strategy forward, the company dedicates a lot of its resources to hiring the best professionals in the industry. Besides its founding airlines, the carriers within the group are Aer Lingus, Vueling, and Level, the group's low-cost carrier. The cargo segment is also a very explored area by the group, IAG Cargo combines the strengths and efforts of the airlines within the group to develop and carry forward a very effective and organized cargo operation.

The group's business model is very interesting to understand. IAG represents the central company, it is through its management and operational efficiency that the group can create a safe and healthy environment for its airlines to grow and operate with a high rate of success. Each carrier that is a part of the group is responsible for its own financial and operational results, having full independence to approach and create its own market demand. The airlines also have the availability and opportunity to advance into the market with their own cultural identity and commercial strategies, enabling the group to extend its market share and reach a higher number of passengers.

3.2 - Lufthansa Group

Lufthansa with the yellow and blue colors as we know it was created on August 6th of the year 1954. It is one of the most charismatic and respected airlines in the entire world, having been through recessions, oil crises, and several world conflicts. Its performance is unrivaled in the European aviation stage, operating a fleet of 710 aircraft and having doubled its revenue from 16.8 Billion euros in 2021 to some staggering 32.8 Billion euros by the end of the 2022 financial year.

The group has a very well-structured identity and all of its carriers share this common cultural footprint, all situated in Germany or its surrounding countries. Besides Lufthansa, the group owns Swiss, Austrian Airlines, Eurowings, and Brussels Airlines, all carriers inserted in the same segment, something that might contribute to its enormous success, having all the airlines in the group strong holding its position seeking the same market share.

In addition to the group's freight operations carried on by Lufthansa Cargo, the company also has three very interesting and successful departments that are worth mentioning. The Lufthansa Group's logistics specialist is a department within the airline that is responsible for freight management operations the Jettainer group has its own subsidiary companies and the major asset of this department is the management of the 50% stake Lufthansa has in the German cargo airline AeroLogic. Furthermore, there is one of the company's biggest assets, its maintenance, repair, and overhaul services (MRO), called Lufthansa Technik that provide service and assistance to more than 800 customers worldwide. The Lufthansa Group also has its own catering subsidiary, the LSG Group which has two independent brands, the LSG Sky Chefs deals with onboard food service and the entire food operations within the group's carriers. In addition, Retail inMotion (RiM) specializes in onboard sales operations ranging from a wide variety of high-quality products.

Lastly, there is one factor that perhaps makes the Lufthansa Group the most likely buyer for Tap Air Portugal, it is the only Star Alliance member competing for the purchase of the Portuguese carrier. As a founding member in 1997, Lufthansa shares the airline Alliance membership with TAP, something that might tip the conversations in favor of the German-based group.

3.3 – Air France-KLM

The Air France – KLM group is the third main competitor and possible buyer for TAP Air Portugal. The world-renowned group has a major role in the European air travel business and also makes a great impression overseas. In the year 2022, the group transported more than 83 Million passengers around the world to more than 300 destinations, among its three different passenger carriers, Air France, KLM, and Transavia. Last Year, along with its 522 aircraft fleet and over 73,000 employees, the group achieved a revenue of around 26 Billion euros, an increase of 38% facing the previous year of 2021.

The group also has a particularly interesting cargo operation. Besides Air France Cargo with its four Boeing 777 Freighter aircraft, the group also owns the cargo operator Air France Martinair Cargo which with its two Boeing 747 freighters, totals the fleet at six aircraft operating exclusively cargo transport within the group. In addition, with its large fleet of Jumbo aircraft, the group was allowed to transport some impressive 1.274 Billion tons of cargo in 2021.

Besides the group's carrier operations, it also has a very efficient maintenance service. Air France Industries – KLM Engineering & Maintenance (AFI-KLM E&M) represents the third business area of the aviation group. Like its direct competitors, it provides maintenance, repair, and overhaul services (MRO) and has an impact of 1.0 Billion euros in the group's P&L statement. With around 12,800 employees and 8 logistics centers, it has the ability to serve more than 3,000 aircraft each year from a variety of over 200 customers worldwide. Along with its Skyteam alliance members, the group continues to grow exponentially and connect the world in a sustainable and green manner.

4. – Financial Overview

4.1 – 2021 & 2022 Profit & Loss Analysis

The years 2021 and 2022 represented harsh times for the entire world, it was very challenging for any company but in the aviation sector, where competition is one of the most feared in the world, it was especially difficult to overcome the obstacles and the entire pandemic. Above all else, the financial paradigm that represented 2021 and 2022 could not be further apart from each other, something TAP was not prepared for.

In the year 2021, TAP Air Portugal presented an Operating Income of 1,388.5 Million euros, facing the 3,485.0 Million euros achieved in 2022, this indicates an increase of 151.0% year-on-year increase and growth. Within the Operating Income, I find it interesting to point out the massive increase in passenger-generated revenue of 187.9% year-on-year growth. The operating costs are relevant to analyze because we can verify the massive income increase mentioned above but the year-on-year costs are not as linear as the Income values. In 2021, the airline stated 2,877.2 Million euros of operating costs, with an Operating Income of 1,388.5 Million euros, facing the costs verified in 2022 of 3,216.8 Million euros with an Operating Income of 3,485.0 Million euros, representing an increase of 11.8% in costs but with a massive Operating increase of 151.0%. According to the airline, the increase in Operating Costs is due to the inevitable increase in variable costs due to the massive increase in operations like slots and ground crew payments, and due to the major increase in fuel prices.

Due to the lack of operational availability within the aviation industry and all the consequences caused by the COVID-19 pandemic, TAP ended the year 2021 with a recorded loss of 1.74 Billion euros. The airline stated to the press that this number was mainly caused by the closure of one of the airline's maintenance companies in Brazil, which impacted the airline by over 1.1 Billion euros. The year 2022 represented the complete opposite financially, given the airline actually finished the year with declared profits of 65.6 Million euros. This amazing recovery by the airline is mainly due to the removal of most flying restrictions and opening of the skies to commercial air travel, meaning TAP flew 13.8 Million passengers in 2022, representing an increase of 136.1% facing y 2021 and 81% of the pre-pandemic numbers of 2019.

As we can understand from the numbers stated above, the year-on-year change between 2021 and 2022 was immense. This increase in financial performance was caused by an astonishing increase in operation capabilities by the airline. The Summer of 2022 was going to be a big test for the airline and it did not go according to expectations, given TAP proved to be unprepared for the big flight demand of the summertime and given the industry was mostly paralyzed for more than 2 years, the personnel that makes sky travel possible was not prepared to handle such a drastic shift in performance and demand.

4.2 – 2019 & 2022 P&L Analysis

To properly understand the major operational growth that TAP was faced with in the summer of 2022, it is relevant to make a comparison between the operational values of 2019 and 2022. Before the pandemic hit, the year 2019 was the last operational period before the impact and restrictions of the COVID-19 virus and as such, we can take its numbers as a reference to understand what a regular operating year looked like for TAP Air Portugal.

In the year of 2019, TAP Air Portugal presented an Operating Income of 3,229.0 Million euros, a very close number to the value of 3,485.0 Million euros already mentioned above for the year 2022. The airline Operating Revenue increased by 7.0% from 2019 to 2022, and in the year in which the market was to come back and present values close to 2019, TAP was able to present higher values than the ones stated before COVID-19. Regarding the flow of passengers, the number comparison between these two years is very relevant to analyze. In 2019, the airline transported 17.1 Million passengers, and in 2022 this value was 13.8 Million passengers. These numbers mean that TAP transported less 19% passengers than in 2019 but was able to grow 7% in Operating

Revenue, giving us a small perception of the demand air travel was in when the aviation industry was fully operational again. These 13.8 Million passengers were flown in 108,000 flights all over the world, while the 17.1 Million transported in 2019 were flown in 137,000 flights, representing a decrease of 27% in flights operated but once again, stating an increase of 7% in Operating Revenue.

It is safe to say the airline was expecting a boost in air travel and operation capacity, but the numbers surprised the industry. The Portuguese carrier, operationally wise came very close to the pre-pandemic numbers and even increased 7% in revenue, an amazing achievement. The numbers show a positive index of recoverability, the issue arises when we start to analyze the way they were achieved and the major problems the airline faced during 2022, especially during the high season between July and September.

5. Airport Paradigm

Lisbon Airport, currently named Humberto Delgado Airport, was initially built between 1938 and 1940 and was inaugurated as Aeroporto da Portela. The city rapidly grew around the airport and due to its big year-on-year traffic increase, in 2007 terminal 2 was built for the low-cost companies' operations. In the present time, the airport is operating on the verge of its capacity, making the passenger experience less pleasant than it could be, especially during the high seasons, Christmas and Summer times.

According to the Instituto Nacional de Estatística (INE), the flow of passengers between 2021 and 2022 increased drastically and this was something the Airline was aware would happen. In 2021 the number of aircraft landings in Portugal was 134 549 and in 2022 this number increased to 217 629 aircraft landings, meaning an increase of 61.74% in a year. From these 217 629 aircraft movements in Portugal, 101 584 correspond to Lisbon Airport, meaning that 46.68% of all the Portuguese air traffic is from Aeroporto Humberto Delgado. Now according to ANA Aeroportos, in 2022, Portugal moved 55 569 Million passengers, an amazing traffic recovery from the COVID-19 times whereas in 2021 the number was 25 598 million, meaning an increase in passenger flow of 96.66% in a one-year timeline. In 2021 the passenger traffic at Lisbon Airport was 12 148 Million passengers, whereas in 2022 was 28 261 Million passengers, translating into an increase of 132% in passengers transported in Aeroporto Humberto Delgado alone. With all this data, one

important remark has to be mentioned, and that is that in 2022, the top 3 months with the biggest passenger traffic were August with 2 949 Million, July with 2 934 Million, and September with 2 825 Million passengers, according to ANA Aeroportos.

Apart from the great increase in air travel felt by the Airline all over Portugal, but especially in the capital city of Lisbon, some other factors outside the control of TAP affected the passengers tremendously in the Summer of 2022. The aviation world was living through tense times in the Summer of 2022, especially in Europe, where air travel increased to almost 90% of the levels felt before the pandemic, hitting a very unprepared and still rusty structure from COVID-19. People were unhappy, in Portugal, there was a lot of fear about strikes with the airline and handling companies threatening strikes in the middle of summertime, the extreme pick of air travel. From the lack of airport staff like the one felt with Portway, to several strike warnings demanding better work conditions, the airport was a ticking time bomb that ended up going off. All over Europe the delays and cancellations were tremendous with Germany being the most affected country in Europe, ending up canceling 2521 flights between July and September, 3.69% of their summer flights. Eurowings closes the top 4 with 2.47%, canceling 835 of their Summer flights.

Regarding the airport situation, TAP is dependent on outside companies to carry out its operations. Airlines do not function without good-performing handlers and this case is no exception with Ground Force carrying out the ground operations for TAP Air Portugal. This should be a healthy relationship, something that the airline does not often enjoy. Ground Force is a very powerful stakeholder and can stop TAP's operations if they so desire, something that is often put into question with the several strike threats the company carries out and especially carried out throughout 2022.

6. Airline Internal Situation

The airport, as explained previously, represents a major threat to a good flowing performance by the airline, to deliver a quality and delay-free service to its customers. Unfortunately, it is not the only barrier that arises against this good performance, as internally, TAP Air Portugal faced very challenging years with problems relating to their staff. During the pandemic, the airline had to make cuts and staff was one of the obvious targets, as they represented

a big cost for an airline that at the time was not making enough money to be profitable or even to stay afloat.

6.1 – Short-staffed

Before the pandemic in 2019, the airline employed 9,006 people, including pilots and ground staff. In 2020 this number decreased by approximately 10% to 8106 people. In 2021 this number decreased again by around 22.3% compared to the previous year to 6626 people, meaning that between 2019 and 2021, the airline witnessed 2380 people leave the company. This action is due to the lack of operational revenue and flights registered all over the world during this abnormal period of three years but with such an increase in demand foreseen for 2022, TAP should have done something about this low staff number. The airline tried to bring this number back up and by the end of 2022, TAP Air Portugal employed 6988 people, after hiring 362 employees throughout this year. We can identify what bad management looks like when we look at the numbers provided by the airline, given a big increase in air travel was expected for 2022, especially during the high season.

As mentioned above, in 2019 the airline transported 17.1 million passengers, flying more than 137,000 flights and it is fair to say that a big increase from the pandemic years was more than expected. In 2022, TAP flew 13.8 million passengers in more than 108,000 flights, representing around 81% of the passengers flown in 2019. The issue arises when we analyze the number of staff members the airline had to carry these flight operations back in 2019. The airline had 9006 employees pre-pandemic and entered 2022 with only 6988 people, representing a decrease in the staff of 35%, meaning that the number of passengers in 2022 was less 19% than in 2019. Still, the staff was less than 35% of capacity in 2019, something that might have triggered the airline's poor performance over the summer of 2022. We cannot be certain that this lack of staff was the cause or even contributed to TAP's poor performance but maybe by obtaining more staff, the airline could have dealt with this situation in a better and cleaner way.

6.2 – Wages Cut & Employment Struggle

As stated above, in 2021 the airline closed the year by registering the biggest financial loss in its history, around 1600 million euros. However, the tide changed in 2022, when the Portuguese

flagship carrier ended the year declaring close to 66 million euros of profit, a number unfairly achieved, according to the Portuguese Civil Aviation Pilots Syndicate (SPAC).

After TAP presented the results for 2022, the Pilots Syndicate immediately reacted and contested the outcome, stating that the yearly profit was only achieved through a big pilot wage cut of around 45%, as SPAC communicated to *Diário de Notícias*, “*O parco resultado da TAP no ano passado foi conseguido sim, e apenas, à custa dos cortes salariais dos trabalhadores, tendo por isso contribuído substancialmente os pilotos, com um corte salarial de 45% no ano de 2022*”. The Syndicate still adds that it was the workers who financed the airline’s positive results, especially the pilots, both as taxpayers but also as employees with almost half of their salary. This situation was also witnessed in other big European airlines, such as the big shark Lufthansa, which in 2020 declared a pilot wage cut of 45% throughout the two upcoming years, to fight the big health crisis.

This situation, besides having a direct impact on the company workforce, also impacts the way potential employees evaluate TAP as a future place to apply for a possible job. This big cloud of negativism and salary reduction makes the company look unprofessional and unappealing to the eyes of the public, not only in Portugal but also outside our borders. In an article from SAPO, a Portuguese online newspaper, the opinion of the manager of the Portuguese Transportation Workers Syndicate is shared, stating that it is currently very difficult for TAP to employ the number of workers they need because the conditions are not appealing to the public, “*Há uma dificuldade tremenda de contratação de pessoas para a TAP, eu estou na TAP há quase 30 anos e lembro-me que toda a gente queria [trabalhar na empresa]. E agora não, porque as condições não são atrativas, a empresa está numa situação difícil, com cortes salariais que não se prevê quando poderão ser revertidos*”.

6.3 - Cyberattack

Besides the difficult situation the airline was in during the Summer of 2022 due to the reasons stated above, there was another incident that caused major concern across every branch of the airline. In the middle of a chaotic summer, packed with problems and unfortunate situations, in August the airline was the victim of a Cyberattack.

According to the Portuguese newspaper “*Expresso*”, 581 gigabytes of data were stolen, referring to more than 1.5 million TAP clients. This data mentioned very private information including addresses, client names, and phone numbers not only exclusive to TAP but also to other

aviation companies who do business with the Portuguese carrier. This situation raised a big red flag above TAP's ceiling and the European Commission acted immediately proposing a new Cybersecurity law to be applied to every digital product. The noncompliance with these measures is proposed to apply fines of up to 15 million euros or up to 2.5% of business revenue.

The airline responded stating they had no confirmation the hacker group was able to access any crucial information, such as the client's payment credentials or credit card numbers. Even added, after an operationally negative summer, that the flight operations were proceeding as normal and there was no reason for concern.

7. Airline struggle during the Summer

7.1 What Went Wrong

Following the situation mentioned above, unfortunately, Tap Air Portugal was no exception to this far-sighted crisis. The Portuguese flagship carrier suffered a lot throughout the summer of 2022, mainly at Lisbon airport where most of the effects were felt. There were a lot of flights canceled and delayed, several passengers were impacted and some even had to sleep at the airport due to no means of contacting the airline. According to CNN Portugal, the consumer agency DECO stated that *“considera lamentável mais um episódio de cancelamento de voos, maioritariamente operados pela TAP, marcado pela ausência de assistência apropriada aos passageiros, e que determinou largas horas de espera no aeroporto e até que muitos passageiros pernoitassem no aeroporto”*

Tap Air Portugal was amongst the top 10 airlines with the most delayed flights from July to September 2022, the summer of the big return, closing the Top 5 after Lufthansa, SAS, KLM, and Eurowings with 2.01% of their summer flights canceled, corresponding to an astonishing 379 cancellations, according to Mabrian. In addition, the airline was not able to cope with the high increase in passenger flow in need of assistance, resulting in many complaints and many more unhappy passengers. Many stated that they were unable to reach the airline after the cancellation of flights and nobody knew what would succeed, damaging greatly the already damaged image of TAP.

In conclusion, Tap was not able to adapt and overcome the high volatility of the aviation market after the COVID-19 pandemic. The Summer of 2022 represented the comeback of air travel and apart from the re-opening of air space to commercial travel, the demand was expected to be greater than normal, something for which Tap Air Portugal was not prepared. Besides the external strikes and the European aviation critical situation, TAP was short-staffed and was unable to respond properly to this massive yearly increase, something that was expected.

7.2 – Airline Reaction

As mentioned before throughout this dissertation, the big increase in passenger flow was expected to come close to 90% of the numbers registered in 2019, something that did happen. Before the summer, the airline was already trying to figure out how to solve the foreseen problems but as we are aware by now, the efforts were not enough and the operations carried out during the summer of 2022 were compromised. Before the Summer, in April, the airline already understood they were not prepared for the upcoming months and published they intended to hire 250 more cabin crew members to help with the foreseen demand.

Summertime arrived in 2022 and the problems started in early July, with a weekend packed with delays and difficulties. The airline CEO, Christine Ourmières-Widener, knew a very hard period was approaching, so decided to publish an apology announcement referring to the weekend before but also apologizing in advance for the difficulties approaching in the next months. In a first moment, she apologizes saying “ *At this moment, we recognize that we are not offering the excellent service that we planned and that we want you to experience with us, given the crisis that air transport is going through and which, according to the most recent forecasts, should not improve in the coming weeks, as a result of the steady increase in leisure and business travel. For all this, we offer our most sincere apologies.*”. The next paragraph of the announcement is the one that prepares the public and the airline clients for some hard times, stating “*We guarantee that TAP and all our teams are committed, at this moment, to minimizing as much as possible any inconvenience that may arise during your journey with us, hoping to have a more robust, functional and articulated air transport in the summer of 2023*”.

This way, the airline reacted to the issues they faced at the beginning of the 2022 summer but at the same time, they made use of the situation to prepare the public for the delays and operational difficulties to be felt throughout the upcoming summer. Even more so, the airline CEO

throws in the towel regarding the 2022 year and forecasting big improvements for the upcoming year of 2023.

8 - Expectations and Outlook for 2023

After the results presented by TAP in 2022, the airline appears to have a very promising future ahead, at least operationally. As we are aware, TAP Air Portugal is for sale, and given the main interested groups in buying the airline were already listed above, it is safe to say that change is soon to come. Nevertheless, the carrier has to be prepared to operate as they are at the moment, and as such, they set their goals very clearly for 2023. The key goal for the airline is to maintain Operational profitability for the entire year, something that requires a high level of adaptability to the ever-changing aviation industry. The airline accomplished this milestone in 2022 but there is a lot more TAP wants to accomplish in 2023. As the airline states in its transformation agenda, there is a lot to change and implement throughout the year and these changes will focus on customers, revenue, costs, and people.

According to the airline's goals to enhance the customer experience, there is a great focus on improving the interface of the website and app, making it more user-friendly for the passenger. The whole service is also something TAP wishes to improve, from the Lounges at Lisbon airport to the frequent flyer program, to the flight experience itself, the airline wants to improve its service to the customer overall. Revenue-wise, there is a clear focus on growing the passenger capacity in the Brazilian and US markets, something that represents a big challenge given the big competition felt in the transatlantic market with American carriers such as Delta, American Airlines, Azul and Latam flying from the United States and Brazil daily. The Stopover program will be relaunched so that passengers on connecting flights can schedule flights days apart so that they can have the opportunity to visit Portugal. Regarding costs, TAP wants to focus on re-negotiating contracts with the aircraft manufacturers, in this case, Airbus, Embraer and given that the current ATR aircraft on the fleet, previously operated and maintained by white airways but that is now rented to Azul, the Brazilian operator. Fuel efficiency measures, operational improvement initiatives, and the negotiation of third-party contracts are also the main efforts to reduce and optimize costs. Finally, on the social and human side of the plan, TAP Air Portugal desires to implement a performance-

enhancement culture by improving and implementing new ways of working and by doing so attracting new and motivated individuals to the airline.

TAP is growing and the numbers presented in 2022 are extremely positive given the current situation of the airline. In 2023 and forward, the airline will focus its efforts on improving the customer experience, enhancing operational flexibility, improving the cost structure, and creating good and innovative work opportunities for the next generations. TAP wants to invest in the Portuguese people.

IV – Resolution Notes

1 – Introduction/Synopsis

The Covid-19 pandemic impacted the world unexpectedly and the aviation industry was no exception. All the airlines in the world rely on commercial air travel to do business and with the closure of the skies to commercial flights, the situation between 2020 and 2022 became extremely challenging. The Portuguese flagship carrier TAP Air Portugal, the leading airline in Portugal and one of the safest in the world suffered a lot not only from the direct impacts of the pandemic but also from all the repercussions it led to in the following years. Through the reading of this case study, TAP's strategy to adapt to a very demanding crisis is analyzed and put to light.

Through the analysis of the resources, dynamic capabilities, and stakeholder management, students can better understand the situation of the airline in the Summer of 2022 and properly analyze what could have been done better to prevent such a faulty situation from happening. In addition, a detailed operational and financial view of the company's performance is carried out, this way giving an important context over the airline's situation behind the curtains.

Given the rapidly changing capacity of the aviation industry, the questions raised by this section might be answered differently in a different period. Nevertheless, it provides students with accurate insights into what the aviation business is about, especially the importance of possessing well-developed dynamic capabilities.

2 – Teaching Objectives

This case intends to enable students to better understand how a commercial airline in such a rapidly changing industry reacts to a major unforeseen crisis. With the use of relevant theories, TAP's structure and strategy are analyzed and students can so apply the different frameworks to determine what could have been done differently by the airline to overcome the situation in a better and more successful manner. Stakeholder management is a very relevant topic approached in this section of the paper and it clearly shows how important they are in this industry.

This case can be relevant to students pursuing a master's degree with any courses related to strategy or firms situated in fast-changing environments. No specific requirements are needed but it is advised to have a general knowledge of the aviation industry to better understand the big challenge the airline was facing throughout this specific period.

3 – Assignment Questions

Question 1: According to Barney's Resource-Based View, what resources does the airline have that create a sustained competitive advantage?

Question 2: Measure TAP's Dynamic Capabilities over the Summer of 2022. Why was the airline not prepared for the high season?

Question 3: Perform a Stakeholder analysis under Mendelow's Matrix. Who are the most important stakeholders?

4 – Analysis and Discussion

1. According to Barney's Resource-Based View, what resources does the airline have that create a sustained competitive advantage?

It is safe to say that every company must have the major goal of setting itself apart from its competitors since that is what will bring value to the business. In the aviation industry, this goal transforms itself into a need for every company, especially when discussing passenger carriers.

TAP Air Portugal is no exception and due to several factors to be mentioned, TAP can create tremendous value from its heritage and also due to its distinguished resources.

By focusing on the Resource-Based View from Jay Barney, we can understand that a firm's advantage and value are created through its resources and capabilities. According to the Resource-Based View, only unique and distinctive resources are sources of sustainable competitive advantage. Having said this, an important distinction must be made. Creating a competitive advantage is not the same as creating a sustained competitive advantage, and in the current aviation industry, this differentiation is a game changer. A competitive advantage is a strategy that can bring value to a company, disregarding the ability of the competition to imitate said strategy, opposing a sustained competitive advantage, which is a strategy able to bring value and advantage to the company but is said to be sustained because the competitors cannot replicate it. In the aviation industry, creating a competitive advantage is not shown to be a difficult task, this can be achieved by opening new routes, buying more modern aircraft, or even changing aircraft liveries. Creating a sustained competitive advantage can be a difficult task but in the case of TAP Air Portugal, the resources to create said advantage are incorporated in the company's identity.

From my point of view, the major resource TAP Air Portugal has is its history and heritage. A firm with a significantly different history stands clear of imitation from other firms. From point one of the case study mentioned above, we can determine how important TAP was for the development of aviation not only in Portugal but in the entire world. An example of this is the creation of the "*Linha Aérea Imperial*", the longest commercial route operated by the infamous Dakota DC-3 aircraft, connecting Lisbon, Luanda, and Lourenço Marques. This trip took 15 days round trip and 12 stopovers to complete, an amazing aviation feat for such an early-stage airline. This project was launched soon after its creation in 1945, which placed the name TAP in the headlines of newspapers all over the globe. This goes to show that TAP Air Portugal was built under the foundation of hard work and dedication, everything built until today is due to the example set over 75 years ago. The airline's foundation has shaped its culture to this day, creating an irreplaceable set of values and beliefs that have formed the way TAP carries out business. This heritage represents an amazing invaluable resource for the airline, it cannot be replicated and sets a great example of a country of hardworking people united around its flagship carrier. TAP Air Portugal is not just an airline, it is a symbol of patriotism and it takes the Portuguese flag all over

the world. As previously stated, a firm's unique culture and values can provide a sustained competitive advantage.

Secondly, the Lisbon Airport also represents an essential resource for the airline. Its position in relation to all European capitals and its proximity to the center of Lisbon are some of the aspects that transform it into an irreplaceable asset. As mentioned above, due to its current faulty structure, we become aware of the lack of capacity felt when discussing passenger flow and quality service. Evidently, the management of resources is almost as important as their existence: how the resources are managed is essential to the development of competitive advantage. Nevertheless, for the airline, it represents a great resource, given its location in Lisbon, considered to be one of the most beautiful cities in the world. Apart from being the gateway for Atlantic air travel coming into Europe, TAP has a program called Stopover that provides tourists with the ability to extend their layovers so that they can visit cities such as Lisbon and Oporto. The airport is therefore clearly an extremely important physical resource of the firm, which creates a sustained competitive advantage because it is impossible to replicate a geographical location. This aspect of the airline emphasizes how the firm's internal resources and capabilities are truly its strongest asset.

Lastly, TAP was considered one of the safest airlines in Europe in 2022. This is an organizational resource that contributes to its competitive advantage in the way that it is a major attribute that is especially valued by consumers in the air travel industry. According to Airline Rating, the Portuguese flagship carrier is currently one of the safest airlines flying in European airspace and also the 6th safest airline in the world. This notable recognition was granted due to the airline's COVID-19 protocol and the positive experience shared by passengers when traveling with the airline.

While it is of extreme importance to possess a sustained competitive advantage in the aviation industry, it is not an easy task. TAP Air Portugal is fortunate enough to have resources that will provide such a sustained competitive advantage. Apart from its fleet and infrastructures, it is the airline's heritage and history, its geographical location, and its recognition that creates this unduplicable value that sets the Portuguese flagship carrier apart from its competitors and gives it a unique Portuguese identity.

2. Measure TAP's Dynamic Capabilities over the Summer of 2022. Why was the airline not prepared for the high season?

The Summer of 2022 was expected to be a tough period for the aviation industry regarding the big passenger flow foreseen. It was the Summer of the big comeback for the business and every forecast pointed to a crazy season for the airlines, with air traffic forecasted to register 90% of the pre-pandemic levels. TAP was aware of what was coming and excellent Dynamic Capabilities were required to go through such a demanding test. As mentioned above, Dynamic Capabilities refer to the processes and strategies a company can deploy to adapt to fast-changing and unforeseen circumstances and scenarios. This adaptation skill is tremendously relevant, especially when discussing any aviation corporation.

From the financial overview compiled above, we understand the severity of the airline's situation in the past few years. The pandemic hit the aviation world hard between 2020 and 2022 and every airline and aviation-related business was put through a rough patch, including TAP's direct competitors, IAG, Lufthansa Group, and Air France-KLM. As previously mentioned, 2022 was being pointed as the year of the return and the interesting side of the Dynamic Capabilities View is that it is not only the ability a firm has to adapt to changing environments, but it is also defined as the ability to foresee opportunities and threats upcoming. TAP was aware of the demanding period ahead, every forecast pointed to it, and even so, the airline was not able to adapt and overcome the challenge. A big lack of Dynamic Capabilities was demonstrated and the poor customer service and several flight delays are the result of this lack of adaptability.

Adding to the hard financial situation the airline was going through, throughout the pandemic period, TAP had to let go of several employees, given the small number of flights and business available during this period. Between 2020 and 2022, the airline laid off more than 2000 employees, gradually over the three years and this can also be seen under the light of the Dynamic Capabilities View. From the beginning of 2022 until the early Summer season, the airline was trying to hire staff to fight the big demand upcoming, clearly showing awareness of the high traffic demand. The issue arises when we analyze the Summer of 2022 and realize the large amount of delays and the poor performance that was witnessed. In addition to the struggle to hire new employees, TAP had to apply massive wage cuts, especially to pilots and flight crew, of around 45%, something that just added a lot of unsettlement inside the airline. This wage cut was also

implemented in TAP's rivals, such as Lufthansa, where it applied the same percentage of wage cuts to its pilots over three years. The problem for TAP is bad management and bad adaptation ability because everyone was aware the wage cuts were happening but the situation had to be dealt with better. Pilots were unhappy and the SPAC, the pilot's syndicate, showed exactly that stating the profits the airline declared in 2022 were exclusively due to the salary cut the pilots and flight crew suffered because of the pandemic. In addition, there was a cyber attack that targeted the airline, making the situation even more difficult in a very difficult situation.

In conclusion, the performance over the analyzed period was faulty and below expectations for such a large company. Besides demonstrating poor management skills, TAP showed extremely poor Dynamic Capabilities throughout the Summer. The airline was not able to adapt to the fast-paced and abrupt environment witnessed in this period, especially when it comes to staff. We cannot safely state that with more staff the results would have been better but better management of the staff was definitely required. In addition, besides the poor adaptability skills, the airline was not able to create a strategy and adapt to a situation that was already expected, and this is the most alarming part of the analysis. TAP was not ready for the high season and they were aware of it, due to poor staff management, stress, eagerness to improve due to the poor financial situation and the fact that the aviation industry was somehow rusty in its processes made it very difficult for the airline to have a successful Summer season in 2022.

3. Perform a Stakeholder analysis according to Mendelow's Matrix. Who are the most important stakeholders?

When discussing company performance, stakeholder management is a key factor when building strategies. Any company is dependent on its stakeholders and they have to be dealt with rightfully and carefully so that a good relationship can be maintained. Menelow presents us with the Power/Interest Matrix, also known as Mendelow's Matrix, and stakeholders are divided into four categories regarding how important they are to a firm's performance. By analyzing TAP stakeholders under this matrix, we can determine the most relevant ones that should have been taken care of in a different way so that the airline could have maybe prevented the problems that arose in the Summer of 2022.

Given we are discussing such a fast-changing and unpredictable environment, we must realize that TAP is surrounded by very powerful stakeholders, most of them with the power to stop the airline's operations and cause some serious harm and losses to the company. As mentioned before, Mendelow divides his matrix into four groups that are connected by two key concepts, interest and power. When considering TAP there are Low Power-High Interest stakeholders which are journalists and the general public. There are High Interest-High Power stakeholders, which are the airline pilots, flight crew and staff, the handling company Groundforce personnel, and syndicates such as SPAC. Lastly, there are High Power-Low Interest stakeholders which are the airline customers, although not having a lot of interest in the airline's strategy and operations, they have a lot of power because they are the customers and without passengers, there is no airline. Passengers are the core of this business and keeping them satisfied with the product they are buying must be a priority for any airline, especially for a struggling one like TAP Air Portugal.

Due to the unique characteristics of the aviation industry, it is safe to say that every stakeholder is of high relevance to the airline, more than to other businesses. Nevertheless, we can conclude that the most important stakeholders are the ones who can stop the operations of the airline and have direct influence over the business. These are the pilots, flight crew, airline staff, Groundforce personnel, and the civil aviation pilots syndicate (SPAC).

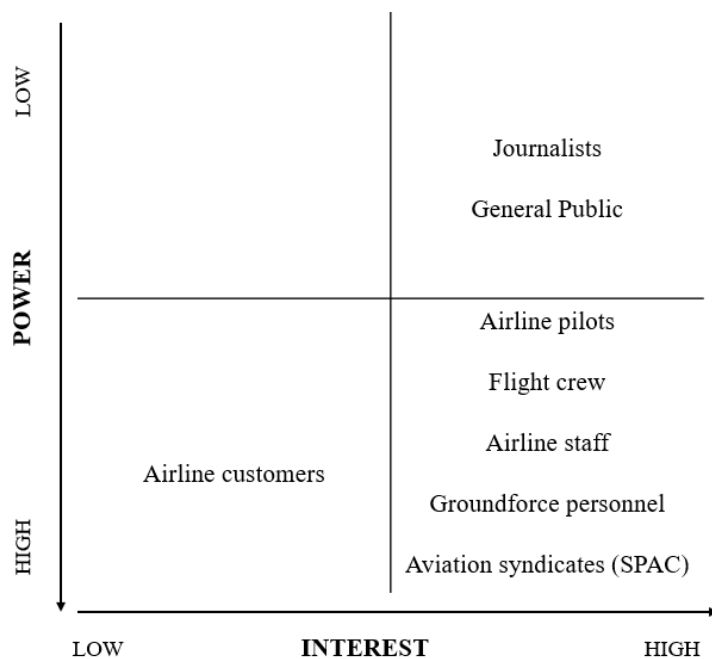


Figure 1 Mendelow's Matrix

V – Conclusion/Limitations

This dissertation was written with the intent of establishing a causal relationship between theoretical frameworks and a real-case scenario. The aviation industry, as mentioned several times previously, is a very demanding and fast-paced business and due to its nature, a crisis like the Coronavirus can cause repercussions for years to come. In this case, we are faced with a set of situations throughout the Summer of 2022, primarily caused by Covid-19 and that put to the test the resources, dynamic capabilities, and stakeholders of TAP Air Portugal. In the end, we realize that the airline was not able to show the adaptability skills necessary to overcome this rough period, despite the company's awareness of the high increase in demand expected. A company with such great resources and reputation was expected to perform at a better level and rise to the expectations.

With the development of this dissertation, I had the intention of determining what had gone wrong during the Summer of 2022 for TAP. It was a difficult period for the industry in general but, in the case of TAP, there was more to it than pandemic repercussions. It is evident there are faulty processes, especially when considering stakeholders. The airline is dependent on its stakeholders, in my opinion too dependent to ensure a year-round operation. The stakeholders at TAP hold the power to bring operations to a halt at any time. Changes should be considered in this aspect, especially regarding Groundforce and staff management. Stakeholders should always be satisfied and pleased, but also controlled and overseen. I would recommend for TAP in 2024 to establish as one of its main goals to become a desired place to work. The truth is that there are many competent young professionals in Portugal and the airline will only take advantage of this fact if it becomes a desirable place of work.

Dynamic capabilities are all about adaptation and overcoming challenges, and during the summer of 2022 TAP did not rise to the occasion. The firm was unable to adapt to the high season, a situation foreseen by the industry. The staff was poorly managed and the focus was on trying to improve last year's results and not on staying ahead for the current year.

An obvious limitation to this analysis is the fact that it was carried out during an atypical and overwhelming period, so it is difficult to reach definite conclusions about the airline's overall performance in regular periods of time. Curiously, although the airline struggled immensely during the period targeted, TAP closed the 2022 financial year with more than 60 million euros in profit, an amazing remark for an airline that had declared a loss of 1.600 million euros in the previous

year. This interesting reality highlights the limitation inherent to the aviation industry, it is extremely difficult to form long-lasting conclusions regarding TAP because in such a dynamic and lively industry, things can change with incredible speed, which comes to emphasize the importance of high dynamic capabilities in an airline.

Lastly, I must say I am a big enthusiast of TAP Air Portugal and of the entire aviation industry. My grandfather was an engineer for TAP and I have always had a particular interest in this airline, so it was a challenge to maintain unbiased throughout this dissertation, but I am proud to say I overcame this limitation.

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