Global Sourcing Strategies and CSR Implementation in Airline Industry

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ABSTRACT

Global sourcing strategies are becoming important with respect to more globalized world and changing global market. Nowadays, profitability is more complex subject for companies. Moreover, if we come through the airline companies, it will be more confused issue to achieve. Customers are getting knowledge about pricing strategies of different types of aviation industry and this makes customer segmentation more important.

Coping with that challenging business requires strong skills on sourcing strategies in human resources, airport and aircraft choices. Hence one of the biggest airline companies was chosen as a case company to observe these strategies.

Increasing of flights for all over the world causes more polluted environment. Hence, airline companies need to be more responsible for environmental issues. Sustainability in that business is motivated by customer and related policies. Chosen case company was also reviewed with respect to its corporate social responsibility.

According to this thesis a lot of work can be done in order to a get a brief idea for the global sourcing strategies and corporate social responsibility. Authors were discussed that subject and observed its applications in a world-wide airline company. It can be supposed as a well-prepared study with literature review and related reflections.
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If you’re not part of the SOLUTION,
You’re part of the problem

Peter Madden
1. INTRODUCTION

1.1. Background
Business means providing goods or services to consumers and the aim of the business can be described simply as adding value to items or services while introducing them to a market. As this is the target, adding value can be achieved by decreasing the cost (supply cost) or increasing the price. In this thesis, authors mainly focused on how to decrease the cost of services, specifically in airline business. Fagan (1991) stated that global sourcing is becoming more important in the global world as there are many airline companies and their different offers, hence it needs to be more innovative and individual as consumer now have many choices. Strategies mostly have an importance on airplane sourcing, crew sourcing and airport sourcing as the Boeing mentioned. Also, authors researched other sourcing areas which may be beneficial for decreasing the cost and achieving the best option. Hence, they asked for support to Turkish Airlines, which is becoming a leading company in airline business, at the beginning.

In airline companies, global sourcing has been becoming very important in order to compete in competitive global market. As it is known, sourcing strategies and management of the usage of sources provide companies to have increase in customer satisfaction and to get more profitable margins (Samli, et. al, 1998). Also, corporate social responsibility can be evaluated as a factor that can increase the both quality of brand and prestige of company hence companies are making many efforts in order to protect their brands (Amaeshi, Osuji and Nnodim, 2008). Therefore, these mentioned issues are selected to be stated by having the contribution of a senior airline company.

1.2. Problem
Since the beginning of 1980s, the world airline industry has become to operate more globally. Significant changes in the global business characteristics lead high level of competency. Therefore airline companies are forced to develop their own global sourcing plan to build up variation in lead times to handle the pressure on keeping inventories lean (Matoglu & Vate, 2011) and to be more responsible for corporate social responsibility. At this point there is need a professional belief to handle a high level of source usage within the perfect social responsibility. After recognizing the importance of global sourcing and corporate social responsibility, a study has been needed combining that both literature issues and nowadays business structures. Furthermore, there is a need of solutions for lack of points regarding to sourcing strategies in order to be adapted to changes and latest trends in the competitive market globally with the mitigation of sourcing risks which were mentioned in 4 different groups; supply risk, process and control risk, environmental and sustainability risk, demand risk (Christopher, et al., 2011). These issues can be analyzed in an integrated and synchronized systems and organizations. Based on these, it has been aimed to analyze global sourcing and corporate social responsibility within a senior airline company by having reflections of literature review.
1.3. **Purpose**
The aim of this thesis is to define and find out global sourcing strategies and the objective of corporate source responsibility in airline companies. In order to generate the purpose during thesis process, necessary data and information are going to be obtained from different departments of Turkish Airlines by interviews.

1.4. **Goal**
The goal can be explained as to provide a compact review on global sourcing strategies and corporate social responsibility subject by mixing the both theoretical and practical approaches.

1.5. **Limitations**
In this study, the literature review has been included widely; moreover, interviews with the regarding directors of the company besides annual formal reports of the company has been analyzed periodically. The context of this study is global sourcing and corporate social responsibility including their conditions and boundaries in airline business. The main focus is how a senior airline company uses and manages related strategies regarding to global sourcing and corporate social responsibility. Finally, as the aim of the thesis is defining the implication of the theoretical ideas, not the observation on quality of the implications. Hence questionnaires were not used.
2. THEORETICAL FRAME OF REFERENCE

It is clear that in global business environment, customer satisfaction and consumer needs have been become very considerable to have more profitable transactions. Hence, supply chain management issues and logistics operations are taken into consideration by companies more heavily than manufacturing issues. Accordingly, global sourcing and corporate social responsibility aspects which are very important within supply chain management and logistics issues are going to be stated by presenting theoretical study. Theoretical frame of references are required to get a wide knowledge while generating the research and analyzing the implications of a senior airline company on these subjects.

2.1. Literature Review for Global Sourcing

2.1.1. International Sourcing

Sourcing can be assumed as an application that also includes challenge. Especially, for the companies and organizations that work internationally, it should be taken into consideration heavily. Reaching the changes and new international trend in the market is very valuable.

Manufacturing and production issues include the transformation of inputs through outputs. In such environments, buying or sourcing can be costly and vertical integration may be needed. Usually, a trend towards a reduction of companies’ own value-adding and a replacement of companies’ own production activities by those of external suppliers can be observed for several decades now. Globally car industry with the Japanese manufacturers leading this trend, has demonstrated the benefits of this strategy. Companies carried out production tasks and complex assembly lines. Few modules are supplied from suppliers and few complex or pre assembled modules are obtained by the company which only focuses on final assembly. This can be called as modular sourcing. Close interactions are set up with few vertical cooperation partners and joint development can be included also. This can lead to a tight coordination of business relations and reduction of coordination. About certain goods, supply may be better not concentrated on one supplier but on few. While the volume of procurement regarding to each supplier is lower, with the certain disadvantages for the negotiation of procurement prices, dual sourcing improves the security of supply. Company may invest in order to decrease costs by evaluating the countries that are known low-cost. Some investments regarding to low-cost countries belong to annual report of Electrolux’06 which can be found in Appendix A. If there exists a problem due to political situation related with the country and if the supplier cannot deliver because of that, other supplier can replace the volume. The company abstain dependency from one supplier and develops the negotiation strength. Finally, competition between the suppliers balances the negative impact on procurement prices that comes from smaller volumes for each supplier. (D. Morschett et al, 2010).

2.1.2. Global sourcing, Supply Chain Management and Just-In-Time

Single-sourcing strategies try to make partnerships between buyers and suppliers to encourage collaboration and achieve common benefits. The close coordination between buyer and supplier(s) required for successful just-in-time (JIT) system. Also there can be some dealing problem, if try to manage more than one source instead of a single source. On the other hand,
web-based SCM system has a closer management with suppliers; make more efficient supply chain processes and procurement costs is getting reduce (Burke, Carrillo, & Vakharia, 2007). Arnold (1999) mention that Global sourcing is one of the most discussed aspects of supply chain management. Hence, there are many study on that new concept, for example strategic purchasing program of Arnold (1989), which is a figure which is composed of two dimensions and four sectors of purchasing activities (Appendix B).

Secondly there can be some risks when single-sourcing is applied. According to study of Burke and et al. (1991) global-sourcing and multiple-sourcing have same meaning and the opportunities of the multiple sourcing strategy; timely delivery, greater advantage volume flexibility due to the diversification of the companies’ total requirements and risk mitigation (Ramasesh, Ord, & Hayya, 1991). The key difference is that the lack of buyer–supplier closeness, in JIT methods stuff should be delivered with small quantities recurrent intervals and fast problem-solving cycles; however the huge distance of global sourcing regularly commands transportation in large batches with long logistics lead-times (Fawcett and Birou, 1992).

Additionally, there are some advantages and disadvantages both of the lean supply system and the global purchasing process. When develop and manufacture of the complex component systems, there can be some problem because of the global purchasing model affects aspects of lean supply systems. On the other hand, global purchasing process helps to get lowest price for the component (Nellore, Chanaron, & Söderquist, 2001).

2.1.3. Global Sourcing Risks and Their Mitigation Strategies
Global sourcing risks can be divided into 4 different groups. These are classified as follows: supply risk, process and control risk, environmental and sustainability risk, demand risk (Christopher et al., 2011).

Supply Risk: To define supply risk, it can be better to introduce original definitions.

“ . . . the distribution of outcomes related to adverse events in inbound supply that affect the ability of the focal firm to meet customer demand (in terms of both quantity and quality) within anticipated costs and time, or causes threats to customer life and safety” (Zsidisin, 2003).

“Supply risks reside in the course of movement of materials from supplier’s suppliers to the focal firm, and include reliability of suppliers, single versus dual sourcing, make or buy decisions, centralized versus decentralized sourcing and security issues” (Manuj and Mentzer, 2008).

Process and Control Risk: Activities of the progress and their control processes which support them can be considered as potential causes for risk. All these causes are associated with the internal structure of the company. Hence, any trouble which is because of these causes may have negative effect on global sourcing actions. Even if such troubles will have an effect on the company, they might consequently have a negative impact on the downstream and upstream elements of the chain.
Environmental and Sustainability Risk: These risks are affecting the sustainability of companies by increasing their sensitivity on the chain because of the negative effect on the economic and social aspects of global sourcing. These effects cause to pollution and emissions of greenhouse gases, mostly CO2 which are the results of ineffective reverse logistics practices, inefficient utilization of transportation, waste creation, time-consuming distances between supplier and manufacturers.

Demand Risk: It might occur in the market which are composed of target consumer for the supplier and causes negative effects on the whole chain. Global sourcing activities are making their hidden effects visible. These are classified as problems which are difficulties to enter new market and to offer and introduce new products.

These major risk types were also observed and divided into segments on Appendix C which are related to the different industry sectors (Christopher, Mena, Khan, & Yurt, 2011).

Review of Christopher, et al. (2011) in literature shows that several strategies have been proposed for risk management in the supply chain perspective but there is no exact risk mitigation strategy or model which have been suggested for global sourcing. At this point, they outline possible mitigation plan for global sourcing risks:

Network re-engineering: This means redesign of supply networks which are made through a good knowledge of upstream network as well as the downstream network. It can be explained as companies which are working globally have to consider every criterion while they are being exposed to different type of risks compared to conventional supply chains.

Collaboration between global sourcing parties: There is a need of closer relationship between partners based on trust to cope with global sourcing risks as they are occurring network-wide. Hence transparency of information and cooperation are really important to get more collaborative movements.

Agility: Level of quick response for unpredictable changes in demand or supply defines agility. In global sourcing, agility has become more important because of bigger effects which are related to disruptions on the chain. In that context, company and its upstream allies have to be sufficient to implement an agile strategy on the whole chain to mitigate risks.

Creation of a global sourcing risk management culture: This one is the most logical strategy to mitigate risks in global sourcing. It can be succeed if there is a conscious focus on managing and monitoring the risk profile which should be focused by the boardroom.

It is obvious that these strategies are related to each other. Hence, they need to be become integrated. For example, importance of visibility is stated for collaborative strategies but it also leads more agile supply chain which means increased risk mitigation levels.

2.1.4. Guideline for effective global sourcing
Fagan (1991) stated global sourcing as prerequisite to involve in the competition for marketplace. Traditionally, lower costs (less-expensive labor, less-restrictive work rules, lower land and facility costs, etc.) are known as the most broadly accepted profit of global
sourcing. Also strategic benefits are important while reducing the costs and risks. Hence, it can be said as the following has becoming essential as well as lower costs: Availability, Uniqueness, Quality, Technical Supremacy, Penetration of growth markets, High speed. Application of them into the business must take place step by step in order to get most effective implementation. Hence, guideline of this process can be classified as:

- Make a commitment from the top
- Examine total costs, not just direct costs
- Develop trust and respect
- Use technologies that enhance control
- Develop ways to handle business risks

2.1.5. Global Sourcing and Marketing Competitiveness

According to Global sourcing strategy there are two main points; (1) which production units will be served specific markets also how raw-materials will be supplied for production and (2) in this point generally about R&D, manufacturing and marketing departments. To competitive with other companies, these three departments have to be successful (Kotabe & Murray, 2004).

In Toyota cases, Toyota has put different kind of engines for different locations. So they have increased economies of scale and standardization in those components. For instance gasoline engines in Indonesia, steering components in Malaysia, transmissions in the Philippines, and diesel engines in Thailand (Nikkei Net Interactive, 2002 cited in Kotabe & Murray, 2004, p.8).

Many growing companies are getting adopted just-in-time (JIT) to improve cost and quality balance. There should be close relationship between raw-material suppliers and companies. Besides, Global sourcing strategy is directly about foreign suppliers requires greater purchasing know-how and it is riskier than other alternatives which use locally based wholesalers and suppliers. Locally based councils are subject to local laws and assume some of the currency risk related with importing. However, now a day that purchasing managers are increasingly making long-term commitments instead of short-term commitments to foreign suppliers, direct dealings with suppliers are justified (Golini & Kalchshmidt, 2010). Nassimbeni and Sartor (2007) mention that (cited in Golini & Kalchshmidt, 2010) global sourcing strategy is not only about low-price and standard products also it is about high quality and technical components. Global competition between company’s increases, global sourcing of components, raw materials and finished products are likely to increase (Kotabe and Murray, 1990, cited in, 1998, p.177).

According to Samli, Browning and Busbia (1998); Global sourcing activities can be used as a strategic tools. Especially for long term plans and management, global sourcing are likely to append to it more of a strategic value to improve their market performance. It means that their
attachment in global sourcing will be increased in the future. Also global sourcing activities are becoming important part of the strategic plan.

2.1.6. Build-to-Order Meets Global Sourcing
Suppliers who are offshore and international assembly processes causes long and many variable lead times which may complicate demand forecasting, supply and production planning. Under the pressure of keeping inventories lean, manufacturers often find needed suppliers are still at sea (Matoglu & Vate, 2011).

Built-to-order (BTO) comes into consideration in some challenges like mentioned. BTO is good strategy for coping with improving product variety and decreasing finished goods inventories. Today, many auto manufacturers, such as BMW, Toyota Scion, Renault, Mercedes-Benz, use BTO to extent (Matoglu & Vate, 2011). Due to high level importation and exportation of auto components, regarding strategies are taken more into consideration. Regarding to this imports & exports of auto components (between 1997 – 2004) can be found in Appendix D as an example.

Traditionally, push systems, where manufacturers built to meet customer demand from available finished goods and build to forecast, are performing in order to keep up with new challenges of product proliferation. To provide BTO strategy successful, having short order to delivery lead times is one of the most important conditions. Normal lead times can be considered as 6 weeks to 10 weeks regarding to vehicle range, whereas customers expect that arriving will be generated within 2-3 weeks (Miemczyk and Holweg, 2004 cited in Matoglu & Vate, 2011, p.235).

In order to get customers have acceptation lead times 2-3 months, some producers let them change choices within the related period. For instance, BMW lets customers change order up 6 days before the vehicle is manufactured. In other words, without impacting the agreed upon delivery date, customers can change specifications that can be engine, color or optimal issues before the vehicle is assembled (Matoglu & Vate, 2011).

2.1.7. Corporate Social Responsibility
World Business Council for Sustainable Development states the definition of Corporate social Responsibility as (cited in The Institute of Internal Auditors , 2010): “Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.”

By analyzing and understanding the definition of CSR, it is found that, multinational companies such as Nike, Adidas, McDonalds, and GAP generally get intense pressure from groups carrying out regarding to have responsible supply chain management. When this mentioned pressure is taken into consideration related with supply chain, the pressure groups and issues find it tough to get or reach the multinational companies as well as global brands directly. In other words, they are based on indirect tactics like source transactions of these brands and their advantageous labor issues in developing countries. Finally, companies generate many efforts in order to protect their brands (Amaeshi, Osuji, & Nnodim, 2008).
2.2. Sourcing Concepts in Airline Industry

2.2.1. Strategic Airline Alliances: Star Alliance
According to changes in economic and regulatory conditions, strategic airline alliances have become important in airline companies. An alliance which consisted of five leading airlines came together in 1997 to create unique services to improve the experiences of travelers during their trip. The mission for the GmbH star Alliance service which consists of workers from many different nationalities is “Executing leadership in managing a portfolio of alliance products and services using an agreed process”.

With more destinations offered than other airlines, Star Alliance has become J/V airline which provides fast and easy travel for their customers within 27 member airlines (Appendix E). The associate airlines work closely together; they share many common services to insure smoother transfers. As star Alliance is becoming more well-known around the world other airlines are waiting for the chance to join and therefore become a member of the alliance. Potential airlines have to fulfill the requirements the alliance sets and they must also conform to the industry’s highest principles within their security and customer service for example. When a strong alliance is formed they provide their customers with fantastic all round services as well as comfortable and efficient travel.

2.2.2. Human Resource Management in Airline Industry
Holtbrugge, et al. (2006) Prepared a study, showing that three different aspects which are affecting human resource management in the airline industry.

Firstly, industry has become more challenging because of competitions with low cost carriers, LCCs (Lawton, 2002 cited in Holtbrugge et al., 2006, p.306). Hence it can be said as industry is now more labor sensitive as before with implications such as these new ideas; labor management for redundancies, part-time positions, etc. (Gil, 1990 cited in Holtbrugge et al., 2006, p.307). Nowadays, low cost carriers are making adjustments on boarding services to reduce costs like operating through alternative airports, using internet for selling and marketing. They reduce labor costs by hiring multi-functional workers and providing basic service level.

Secondly, industry has become more safety-sensitivity because of the terrorist attacks of September 11th 2001. Developments on new technologies make aircrafts more reliable and it seems as most of accidents are caused by pilot or crew error, or by teamwork failures which statistically occur between 60% and 80% (Lima, 2000 cited in Holtbrugge et al., 2006, p.307). Lack of cognitive and social skills, difficulties of interpersonal communication and misunderstandings between people, weak crew coordination, and bad decision-making or leadership can be understood as reasons for accidents. Training practices and sufficient resource allocation are main targets of well staffed human resources. Hence, standardized training program is taken crucially by airline firms (Eaton, 2001 cited in Holtbrugge et al., 2006, p.307).
Finally, customer service has been becoming the important major for industry. Airline firms aim to prolong their brand on the public opinion as well as to retain passengers because gaining new ones are seemed as complicate since high marketing costs are a big constraint to handle. As the frontline staffs in airline industry who are the providers of service to the customer, they are considered as the core competence because they are the most important differentiators while comparing with procedures, products or machines.

2.2.3. Factors affecting the choice of airports

When passengers want to travel, often choosing the right airline or airport can be a difficult choice to make. People often want convenience and cost effective travel over extreme comfort, when choosing an airport distance plays a big part, travelers are not looking for an airport which is far away, which often means peoples final choice is more limited. So therefore this indicates that airports must attract all kinds of travelers, and to attract costumers they must offer many different airlines that fly to a wide variety of destinations. Another criteria that airports nowadays need to fulfill is to provide sufficient comfort of their customers, airports need to appeal to their travelers, so as a result they must gratify their customers’ needs. The overall coalition between airlines and airports must work cohesively and efficiently in order to succeed in their mission of providing their customers with the best travel experience. Graham 2001, cited in Albers, et al. 2008, p.52, prepared a table which is dividing the factors, which are affecting the choice of airports, into two groups as passengers and airports (Appendix F). According to this table, it can be understood as there is no similarity between the decisions making for choosing the airport.

2.2.4. Outsourcing for competitive advantage: An examination of seven legacy airlines

According to the study that has been stated by Rieple & Helm (2008);

The airline sector can be taken into consideration as segments depending on scope, scale, and type of operation. The concentration in that point is major international, full-service, legacy airlines which are close to comparing within the customer segments.

Five principal conditions exist within transaction cost economics (TCE) which is also known as new institutional economics. As regards the outside suppliers information, opportunism is seen a potential risk of sequestration regarding to key assets. There becomes a statement which is asset specificity that refers to the level concerned with which asset is valuable within a specific transaction. In other words, interaction with opportunism takes place at an important level.

Frequency of use implies that transactions carried out only very infrequently do not need to be undertaken within an organization’s hierarchy. Bounded rationality refers to the degree of difficulty in forming transactional contracts because of the limitations of managers’ knowledge and perceptions. Environmental uncertainty increases the problems arising from bounded rationality. These five dimensions interact to predict whether an activity is most efficiently carried out in-house or outsourced.

Assessing the relative costs or strategic benefits of outsourcing in the airline industry is therefore likely to be challenging. Nevertheless, TCE provides an attractive perspective in
order to assess changes in airline industry, and while it is definite that the industry is moving to a networked structure, in which hierarchical management is not higher seen to be the best method of executing business structure, the condition of whether this occurred in the position with estimator theory suggests scope for survey. Interaction of five important airline functions regarding to different airline companies can be seen in Appendix G.

While customer sales and brand management, leaded to follow that TCE proposes to be most efficient, conclusions for the other functions indicate an emerging picture of in-house shape as well as partial arrangements that cover less outsourcing than the framework would predict. The factors affecting the decision to outsource are complex (Rieple & Helm, 2008).

2.2.5. Collaboration in Spare Parts between Airlines

Nowadays airlines companies have very huge cost for spare part components of aircrafts. Therefore, they have started to make pooling arrangement to handle that cost. According to this arrangement between airlines, spare part components of the fleet can be changed their on each of them bases. The main point of this arrangement is to reduce inventory cost and to improve service levels. Component availability replaces capital costs with a stable cash flow, increasing business elasticity. Also there are some disadvantages such as increases transaction costs and acceptable lead times (Kilpi & Vepsäläinen, 2004).

Cooperative pooling concept has first come up to the air transport industry in the 1960s. European airline firms arranged a lot of fleet commonality which provided a foundation for two consortiums for maintenance, called KSSU and Atlas (Lombardo, 2000 cited in Kilpi & Vepsäläinen, 2004,p.138). KLM, SAS, Swissair and UTA are joints of KSSU, and Air France, Alitalia, Iberia and Lufthansa are joints of Atlas. Also, Lufthansa and Air canada will be a partner for a new commonality which will be the component maintenance planner of the Canadair Regional Jet (Flint, 2000 cited in Kilpi & Vepsäläinen, 2004,p.138). Except from these, it is obvious that those enterprises are limited because airline companies are also maintaining their own inventories with regarding to their different codes.

According to Kilpi and Vepsäläinen (2004) case study; in a perfectly reasonable pooling arrangement the stock levels can be decreased by over 30% by making a minor sacrifice in short time service levels. As seen that inventory level should not be zero to reduce the need emergency transshipments. Furthermore, first-in-first-out (FIFO) can be used as an inventory method in that bases to improve service levels also to reduce to reduce same number of spare components.
3. METHODOLOGY
This thesis aimed to draw the borders of global sourcing. At this point, authors conducted their studies on literature review and interviews with the case company. Hence, it can be understood as results were gained by both qualitative and quantitative research methods. First and foremost, it is obvious to get knowledge about global sourcing and corporate social responsibility is important. Literature search were done and presented in theory part of the thesis to achieve it. Conceptual study was tried to tighten by choosing a specific business: airline industry. At this point, Turkish Airlines was selected as case company and its annual reports were reviewed for preparation of finding part of the thesis. According to research of authors, questions were prepared to figure out company’s strategies on global sourcing and CSR, which were also asked to company responsible on interview.

In this thesis, statistical data and graphs are involved from the analyses on the annual reports of case company. Moreover, interview method has been chosen due to the difficult opportunity to be in the company. Namely, the company is in Turkey and it would be difficult to participate in company processes; therefore, the best way became as generating interviews.

3.1. Qualitative research methods
That kind of research methods can be explained as a scientific research which consists of an investigation to seek answers to a question or produce findings that are applicable beyond the immediate boundaries of the study. Hence, these investigations provide descriptive information. Informant interviews or respondent interviews are techniques of qualitative research methods (Holme & Solvang, 1997), and that thesis project contains these interviews.

3.2. Quantitative research methods
That kind of research methods contain numerical data and it seeks to confirm hypotheses about phenomena. It can be collected from surveys and databases which are composed of graphs and tables (Holme & Solvang, 1997). Annual reports of Turkish Airlines contains many statistical constraints on graphs which are explaining reasons for each specific sourcing strategy and economical situation of the company and they are providing secondary data which are received with quantitative researches.

3.3. Interview
Ejlertsson (1996) stated that interviews provide a deeper scope compared to surveys while it is possible to ask follow-up questions. Hence, Interviews were found as more useful while authors worked on this subject. As the headquarter of case company is located at Istanbul, three interviews were made through sending e-mails and making phone calls to observe the implications of theories on the case company. Interviews composed of questions which are asking about strategies on global sourcing and corporate social responsibility. Most of them were kindly answered by the production and planning manager of the case company but also couple of them could not been answered because of the company policy. Authors tried to find answers of these questions by review of annual reports with respect to interviewee’s advice. Interviews are stated as primary data which provides more controlled and detailed information (Eriksson & Wiedersheim-Paul, 1997).
3.4. Literature Review
Authors devoted an essential amount of time for research on the basic ideas and the newest concepts which are about global sourcing and corporate financial responsibility objects. Library sources like available books, reports, journals, articles and case studies were reviewed for achievement of enough knowledge on these subjects. In order to get this broad view, searching process began with entering keywords (airline industry, social responsibility, source management, yield management, corporate competence, etc.) to system. Then usable materials were chosen by reading their abstracts. That process continued by taking the relative parts for ongoing review.

3.5. Reliability
The reliability of the research related to comparing the available resource. The information about the case company was gathered from annual reports, presentations and interviews. It is important to check information with respect to another while researching. Annual reports are prepared by the external audit which is well known in world-wide and they are published in website of the case company. Sourcing instruments which were gathered from interviews are checked for validity in literature review and they found reliable with respect to possible conditions.

As regards the how the information gathered are reliable, due to the one to one interviews and instant phone calls when needed, with the related directors of the company, reliability of the issues that are asked is completely satisfied. Furthermore, the consistency of the information obtained from interviews is also seen as right according to the annual formal reports. Last but not least, the annual published reports of the company are checked by auditing companies; therefore, wrong information and data are not involved in the whole study.

Due to the interviews and asked questions to the directors of the company, the reliability of the thesis is satisfied, because mainly questions are asked to production planning and control director of the company. Also, the annual reports and presentations of the company are formal reports and are monitored by international audit companies. Finally, any assumption was not included in the thesis; therefore, the reliability of the thesis is satisfied.

3.6. Chosen Method & Limitations
In this thesis, mainly interviews have been generated due to the availability to reach the related directors of the company. Also, due to being far away to the head office to the company, statistical questions and questionnaires would be difficult to apply. Regarding to statistical approaches, due to not being within the company and not participating the planning and optimization processes, related measurements would be difficult to carry out as well as reliability could not be provided successfully. As regards the limitations, the most forcible was confidentiality, because some desired answers could not be obtained due to the confidentiality policy of the company. Mainly, the methods that have been carried out by benefiting from annual formal reports of the company, interviews with the directors of the company, and literature review.
4. FINDINGS

4.1. Review of the Case Company: Turkish Airlines Corp. (THY)
This part consists of different subtopics which are concerning the case company and they were reviewed from the financial and annual reports.

4.1.1 Company Profile
THY is one of the biggest air logistics companies with a big network which includes 174 destinations (39 are inside of the Turkey, 127 are outside of the Turkey) (Appendix H). THY flies to more than 30 countries and have a 60-75 percent market share in Turkey. The focus is still on the home market, business travelers and strengthened commercial offerings.

As to observe profitable of company statistically, available to seat kilometers growth of the company is %15, 1 and it is very important information to see how successful to use aircrafts by high efficiency. If it is compared with capacity growth THY, ASK is %2, 7 higher than capacity growth (Appendix I).

4.1.2. Flight Network
The company increased its performance due to its different and well service mentality, quality approach, and well behaved personnel issues. By these additional differences besides the company’s main strategic applications, all of them provides to company generate more destinations. In 2010, company started to serve 15 new destinations (11 domestic, 4 international) and generated 640 domestic flights, 354 international flights by carrying 66382 passengers. Also being one of the ten biggest airline companies regarding to network structure.

4.1.3. Relations and Agreements
Company uses considerable strategies about the conditions that it cannot reach. In other words, it generates agreements in order to provide flights that it has not direct flight. In 2010, there have been made studies to increase effectiveness in Far East, Asia, and North-South America markets. Furthermore, it has been provided that company managed to start sales for 43 offline points with THY (Turkish Airlines) code due to conducted and revised code-share agreement. In this issue, company revised the agreements with All Nippon Airways for Istanbul-Tokyo, Istanbul-Osaka, Osaka-Okinawa, and Osaka-Fukuoka flights. An agreement was established between Span Air for Istanbul-Madrid/Barcelona including free sale code-share for Turkey and Spain domestic flights. With Swiss Air, free sale code-share agreement was conducted for Istanbul-Zurich/Basel/Geneva and with Garuda Indonesia Airways; blocked space code-share agreement was generated for Istanbul-Jakarta flight.

These mentioned agreements have contributed to increase of transfer passengers heavily. The related figure can be seen in Appendix P. Accordingly, the company carried total of 3,402,742 transfer passengers during Jan-Apr’11, by having an increase of 13% in comparison with to the same period of 2010. Also, Total transfer passengers accounted for 36.6% of the passenger traffic. As regards the international transfer amounts, international to international transfer passengers’ share in total transfer passengers is 51%. During Jan-Apr’11, international to international passengers increased by 8% by reaching to 1,731,910.
4.1.4. Services
Within cabin services company is willing to use its personnel regarding to efficient use of sources heavily; for this purpose, 4970 cabin employees participated to Increasing Service Quality and Customer Satisfaction program within 5326 employees. Mainly program consists of the concepts and determinations regarding to: service and passenger satisfaction, expectations of customers from airline companies, served products and services, international examples, brand and its importance, team work, leadership and cabin leader, treatment models, and cabin services in point of view of customers.

As regards the treats, the company was honored by Skytrax regarding to best treat in economy class. Company generated partnership with Do&Co Restaurants & Catering under the brand name which is become as Turkish Do&Co and this provided company increase in quality of treats or offers. Furthermore, company generates flying cook concept. In 10 international destinations, cook personnel participate in serving the goods and listening the customer’s ideas; they have the opportunity to understand customer demands more successfully regarding to the activities that are aimed to increase customer satisfaction.

4.1.5. Yield Management-Comfort Class
Yield management is a pricing strategy in which the customers are segmented according to different groups. The different groups are served by different services (Lumsden, 2011).

Company carries out specific applications according to the customer segments. For instance, some planes have 49 cm seat range and 116 cm knee distance, which have been included in the fleet of 2010. Services that are presented for this class are:

- Maximum seat movement: 21 cm & 111, 3 degrees
- Seat configuration in one line: 2-3-2
- 10, 6 inch in arm screen
- Movies, music, and games archive within these screens
- Connection availability for personal usb and i-pod
- Internet, GSM, and television for future

4.1.6. Corporate Social Responsibility
Company supported Istanbul 2010 Culture Capital Agency in order to contribute to highlight Istanbul’s considerable and unique values. In this manner, 2010 Istanbul Culture Capital writings have been added on to planes.

Additionally, the company supports Turk Kizilayi establishment which is a social responsibility establishment that aims to support society strength and sources, to help people who needs help such as people that are damaged due to a natural disaster, to increase the welfare of all people who needs help depending on health issues. Thy support this establishment’s blood, advertisement, education, and donation activities for a long time. In that manner, the company generates reaching and carrying activities of the helps of Turk
Kizilayi to the regions in national and international boundaries for the people who need these helps and helpful tools.

4.1.7. Quality and Assurance
Nowadays, global economic crisis causes developments in management strategies because it also leads high level of competition. During that progress, Turkish Airlines is implementing new standards on their business which are about safety and quality. Also, audits which were made by international and domestics organizations, clarify that company can be considered as world-wide well known. Presidency of Quality and Assurance made 831 audits (which are also including 261 unplanned audits) at 2010 and the aim is for that is to get the best accurate result. Their fleet was controlled for 609 times with respect to Safety Assessment of Foreign Aircraft (SAFA) and they got better grade than the previous year.

Furthermore, Certificates from AOC, EASA (European Aviation Safety Agency) Part-M, EASA Part 147, SHY-147, TRTO and FTO (Federation of Tour Operators) are renewed during 2010.

4.2. Interview
This part was prepared with respect to answers of questions (Appendix J) which were asked to the production & planning director of the case company during interviews. They were made for to understand the global sourcing strategy of Turkish Airlines and their corporate social responsibility.

4.2.1. Efficiency of Cabin Personnel
The planning and organization of cabin personnel is carried out by having a software program which was obtained from an international company. Due to the confidentiality policies, the name of software cannot be stated. Assignments of cabin personnel are executed both daily and monthly with this program and the program is heavily based on optimization. In other words, cabin personnel are used by having the highest possible optimization. These can be observed on the graph for cost (€ cent) per ASK (Appendix K). Also, for the company, seniority and dossier of the cabin crew are very considerable for extended range flights. In all destinations, all cabin workers have the certification that was defined by Air Transportation Directorate.

Additionally, cabin personnel are trained according to the air plane types, they are introduced in detail and they have to get enough success to have related certification. Within the groups that are conducted according to the plane types, these groups are executed according to the optimization policy of the company.

There are some maximum flight periods according to the countries. For instance, this period is limited for 14 hours for Turkey. 45 minutes before the flight working hours start and 45 minutes after the flight, working hours finish.

4.2.2. Execution of airplanes regarding to purchase and renewal
The company generates long term plans and organizations which are 5 years, 10 years, and more than 10 years. Firstly, the company determines that which new destination points are
going to be opened. Also, the characteristics of the new destination points and the appropriate air plane types are identified and set. Then, the required air plane amounts are stated. According to THY, they define product life of air planes as 20 years. Furthermore, they consider taking them out of feasible condition due to the high maintenance costs after 10 years. Finally, THY prefers to add rather than renew. For instance, THY has cooperation with Sun Express and Air Bosnia and Herzegovina, and they lease the air plane that are used 10 years. Thus, the age average of air planes is set as minimum as well as they provide increase in oil utilization.

4.2.3. Relation between sources & destinations in global market

Turkey exists between Europe and Asia; it has lands in both sides including sea at three sides. Based on that, company decided to generate flights for all possible regions, because company wants to have market advantage due to existing in important and strategic location. In this manner, company desires to have these flights at optimized level.

The company carries passengers within America – Middle-east, America – Far-East, Europe – Middle-East, and Europe – Far-East axis. According to these flights, the company arranges and uses a special flight software program in order to get high efficiency among the relations of air planes. For instance, let us take one flight which is Chicago-Istanbul. In this flight, some of passengers will go different destinations such as Baku (Azerbaijan), Tehran (Iran), Baghdad (Iraq), Amman (Jordan), Athenian (Greece) etc. These passengers will wait in Istanbul for the next flight. At this point THY wants the passengers to wait as little as possible. For this purpose, the flights from Istanbul-to other destinations are conducted as Chicago-other destination including middle destination as Istanbul.

The network of THY, consists of its own fleet and Star Alliance cooperation. In other words, the coordination among air planes is considered by having the flight issues or cooperates. The wide and productive network that was mentioned with an example is carried out more efficiently and effectively due to being member of Star Alliance.

4.2.4. Criteria based on high productivity within flight organization

First of all, the company determines the customer groups and amounts according to the destinations, and the most appropriate air plane types are assigned to the destinations. Namely, to provide utilization regarding to air planes; air plane types and destinations are organized after the determination and evaluation of customer amounts.

The important criteria in this issue are:

**Capacity:**

There are two types of capacities that have been considered by the company;

1-Passenger capacity from the destination point: All air line companies expect and try to conduct prediction of customer amounts. Turkish population was very important for the company regarding to last 10 years, but the company stated to execute global strategies with the new cooperation by improving the customer’s portfolio. As a result of this, THY generates
the customer amount evaluations regarding to destination points by also considering the capacity issues of the capacity considerations of cooperates.

2-Air plane capacity: There are different capacity segments according to the air plane types. These different capacity issues of air planes are executed having accordance with customer segments based on destination points. In other words, planes are assigned to the destinations according to the possible customer demand. Additionally, low capacity air planes are preferred for short distances in general, because the oil utilization is considered.

Revenue Expectation:

Doubtless, revenue issues and strategies to improve the revenue besides profit margin are one of the most important points for many companies. Sometimes, THY may decrease the importance of revenue for some flights; for such conditions, the company does not consider the revenue as much as in general. Namely, the company has low profit margin when they have the passengers which belong to other airline companies’ passengers, because the company has to share the profit with other related cooperate regarding to agreement rights.

Overbooking is very common in the airline business; companies usually overbook their flights by 10 %. In here, it is clear that they book 10 % over their real capacity based on knowledge that 10% of the passengers will not show up. This condition impacts filling rate. If they do not overbook 10% of seats, they would be empty. By overbooking, airline companies guard themselves to provide endurance regarding to high filling rate. This is important due to that one or two passengers could mean loss or profit of a flight because of high fixed costs (Lumsden, 2011).

Distance:

Nowadays, oil cost is very considerable for many air line companies and the cost of oil is directly related with distance. Therefore, the arrangement of the distances between departures and the air plane type is executed by the company efficiently. Low cost air planes are assigned to long distance destination points. In order to decrease distance, passengers are transferred to corporate flight and this provides high income for the company. As an example, passengers of THY that have ticket from Istanbul to San Francisco fly to Frankfurt by THY air plane. Then, they fly to San Francisco by United Airlines air plane. Thus, air planes of the company fly for shorter distance and provide contribution to profit margin, while they would fly long distance and have fewer profit margins due to the cost of oil. Also, it should be stated that the agreement between corporate is very important; namely, it should be arranged as a form that both of the corporate will benefit from.

Cost:

First of all, one of the cost items is cabin crew; especially, the training activities of cabin crew are generally costly activities. THY provides all training activities with internal approach. Namely, the company provides training by the contributions of its managers; they do not have a sub contractor in order to train cabin crew. If the company had an external training
approach, it would be more costly. This is an important decrease of the cost regarding to cabin crew training for the company.

Secondly, oil is very important cost regarding to expense and cost items of the company, approximately 33% of the accumulated cost is oil cost. THY has different projects in order to decrease this cost item. For example, the company has generated some agreements in order to decrease oil costs. The pricing scenario which was made for deal with agreements can be seen in Appendix L.

As an example, when the price of crude oil for one gallon is 180 $, THY buys and supplies with the price of 170 $ based on the agreement. This is a very important advantage for the company regarding to advantageous cost activities, but when the price of crude oil for one gallon comes to 60 $, THY must pay 63 $. From this condition, THY considers the oil market and evaluates the market characteristics, and then it generates advantageous transactions regarding to the purchase of oil.

4.2.5. Factors of New Destination Determination
Air line companies consider the future aspects when they start to serve to new destinations. In this manner, THY evaluates and analyzes the strength of the corporation, commercial strength of the country regarding to new city based on new destination, and Turkish population when it considers starting to serve to new destinations. For instance, THY opened a route to Sao Paulo after the cancel of the visa need between Turkey and Brazil according to a conducted agreement. When the new destinations of THY is analyzed, some examples can be stated as, Istanbul-Tokyo, Istanbul-Osaka, Istanbul-Madrid/Barcelona, Istanbul-Cairo etc. Moreover, THY covers the destinations that it has not directly flight to there, whereas it has these destinations due to code-share agreement. For example, flight to Washington is served by the code-share United Airlines, whereas THY has not directly flight, but it covers this destination.

4.2.6. Technical Issues & Spare Part Management of THY
THY has an establishment called Turkish Technic Inc. which has achieved prominence through its experience and engineering know-how in the increasingly competitive environment of the maintenance & repairs market.

Turkish Technic Inc., which carried out nearly 1,800 letter checks in two hangars at Ataturk Airport in 2009, generated approximately 1,000,000 A/S business activities through its heavy maintenance transactions alone. The engine workshop finished 74 engine maintenance applications. The construction of the Ankara Esenboga Hangar was finished in August of 2009, and the facility is now usable for any activity landing with its 7,000 m2 closed area and a capacity of 3 narrow fuselage craft. After the addition of the Boeing 777-300ER to the company fleet, all necessities for maintenance like tools and training have been conducted.

Additionally, Turkish Engine Center (TEC) that is the first subsidiary jointly established with Pratt & Whitney started activities in December 2009, as a part of Turkish Technic Inc.’s strategy to generate partnership with producers that provide knowhow and transfer of technology.
As it seen, company generates maintenance activities within itself, not depending heavily on the external companies. Also, beneficial partnership activities have been carried out in order to provide more efficient operations. According to the mentioned activities, it can be stated that company provide fewer cost items with higher efficiency.

As regards the spare part issues of the company, there could not be obtained much information after conducted interviews with the company managers. Therefore, authors tried to reach other managers who are responsible for technical and maintenance departments. They have high qualified operations in order to handle spare part components by also having the contribution of technical operators. This contribution is also used due to that the company does not have spare part partnership agreement with other companies.

4.2.7. Catering Services
Catering services are considered just as serving of food & drink; however, catering services should be considered as the all services that are provided such as towels, plates, blanket, etc. These types of tools are stocked in inventory warehouses within the related airports for transoceanic flights. In general, the company includes the catering services tools within the air planes except transoceanic flights. Some purchasing activities can be generated from local companies for long distances regarding to transoceanic flights.

Catering operations are carried out with a partnership company, this partnership has been conducted in order to serve better and to increase customer satisfaction. Furthermore, THY need to supply some catering tools for transoceanic flights; partnership has been generated with Do & Co in order to provide catering supplies in foreign countries better, because Do & Co has been in useful countries regarding to flight of THY.

4.2.8. Factors in selecting corporate and suppliers
Quality accordance to brand: The quality of the products and services that are bought from the suppliers should be qualified enough and appropriate to brand of THY.

Well-known: The brand prestige of the suppliers, manufacturers, and corporate that are in business with THY should be accordance acceptable with the THY brand; namely, the contracted brands should be well-known as THY, because THY give important to brand and global advertisement activities are carried out in order to increase the quality of brand.

Qualified products and services: All possible products and services should be qualified as they should be usable for the THY services.

Strong corporations: The agreements with partnerships should be arranged as the both sides of the agreement should benefit from. In other words, both THY and related partnership should benefit from the commercial activities as well as gain much possible profit margin.

Customer satisfaction: Increasing customer satisfaction is one of the most valuable aims for THY and the corporate that is going to be go for business with should also give much importance to increase in customer satisfaction.
4.2.9. New Approach of THY Regarding to Using Advertisement as a Source

THY has a considerable market share in international market according to Appendix O. According to the interviews with the production planning director of the company, code-share agreements and advertisement strategies contributed this increased share heavily. After that THY provided high standards of success, it could start to focus on advertisement activities more globally. Regarding to this, production planning director of the company considers the advertisement issues as a source branch. After the conducted advertisement movies and agreements with FC Barcelona, Manchester United FC, Kobe Bryant, Kevin Costner, and Caroline Wozniacki, the passenger amounts increased naturally due to increase in brand prestige in the global market.

Additionally, it can be stated that, they considers global sourcing when it selects the advertisement faces. For instance, THY wanted to take attention of customers who travel to USA much and possible American passengers are aimed to have their interest to the company by having advertisement studies with Kobe Bryant. Also, when Manchester United FC and FC Barcelona were selected, case company aimed to take attention all possible passengers in the world. THY gives very much importance to the advertisement faces; for example, Manchester United FC is one of the best football clubs that earn from advertisement operations. Based on that, Manchester United FC is one of the best that people give interest; therefore, it was a good selection for THY regarding to efficient management of source concerned with advertisement.

4.2.10 Efficient Use of Sources for Cargo Operations Concerned with THY

The company uses its sources efficiently also for its cargo operations and it gains satisfied profit margins from cargo operations. Depending to this, cargo carried in international lines improved over the last two years. As of March 2011, 89% of carried cargo was from the international segment and THY has carried total of 85.231 tons cargo, having 18% increase in comparison with the same period of 2010. Also, THY has 60% market share in Turkish cargo market as of March 2010, and it has increased its market share to 66% as of March 2011.

According to the Fleet Plan, decision made to purchase 4 Airbus cargo aircraft A330-200F, which will be received in the year 2011, 2012, 2013 and 2014. This indicates more efficient cargo operations will be provided in the future by the contribution of new fleet.

Depending to these, THY uses its sources for cargo operations so efficiently. Based on the graphs and market share of the company, it can be said that the use of sources is very beneficial and successful. The related information figure regarding to these mentioned issues can be seen in Appendix R.
5. DISCUSSION
Under current circumstances, it is obvious that studies should be supported with

- Efficient Use of Air Planes in Comparison with Competitors

Revenue Passenger Kilometers:
A Revenue passenger kilometer (RPK) is a measure of the volume of passengers carried by an airline. A revenue passenger-kilometer is flown when a revenue passenger is carried one kilometer. RPK Growth of the company can be seen in Appendix M which shows general world RPK growth and the RPK growth of the case company. According to this graph, it is seen that THY uses their planes more effective and more efficient than other airline companies. The company has increased the use of ability regarding to air planes from 2004 to now, whereas there exist a decrease in the world. In that point, case company uses its resources more globally. According to the information obtained from interviews, there are some reasons in this increase:

- Initial public offering has been started in 2005: New board of directors came up with new ideas and investments, because the company was having difficulties financially and was looking for financial sources. New board of directors coped with this situation by generating public offering. They offered to 49% of shares to the public.

- The company privatized some departments which were difficult to manage besides which were not easy to get profit regarding to the main operations of company. For instance, catering service was privatized in 2008. Having a partner for the management of this department became more successful with contribution of a catering company. This also provided the company have know-how for catering processes.

Additionally, Available Seats kilometers should be analyzed in order to have more successful evaluation related to global sourcing success of the company. Related updated figure has been stated in Appendix I. Available Seat Kilometers (ASK) measures an airline's passenger carrying capacity. This number should be calculated per plane, but is (at least in an investment context) usually quoted per airline. A seat-kilometer is available when a seat that is available for carrying a passenger is flown one kilometer. Seats that are not usable for various reasons are excluded. Many airline companies have big problem to increase seat efficiency. The point that use of aircrafts is so efficient comes from being a member of Star Alliance.

\[ \text{ASK} = \text{seats available} \times \text{distance flown} \]
**Human Resources**

According to the company, aviation first starts as an interest but soon turns into a passion for Turkish Airlines employees. Turkish Airlines offers a variety of specialty fields to individuals who would like to develop their careers in the company. Moreover, the company gives much importance to make the employees gain leadership aspect which leads to a person have more efficient management skills. Loyalty and efficient teamwork are the foremost common values. All operations are supported by continuous trainings and thus personal development requirements are met and continuity of the corporate development is ensured. Also, Appendix Na states the Personnel data including personnel statements according to the gender and unit.

Regarding to sourcing issues, use of employees is very important to manage. This mentioned human resource approach provides the company to generate more integrated applications. The integration among the employees and departments is very valuable for a company and this increases the effectiveness of the use of employees.

**Operating Efficiency Regarding to Employees**

Additionally, when it comes to operating efficiency including the employees (Appendix N-b);

- The cost of personnel of the case company per ASK (Available Seat Kilometers) was only €1.39 cents for the first quarter of 2011.

- Aircraft utilization has been increasing in recent years because of better fleet composition and more successful scheduling process.

- In April 2011, the utilization decreased in wide body and narrow body aircraft by 9, 7% and 10, 7%, whereas the utilization increased in wide body and narrow body aircraft by 17% and 8%, respectively as of 9M “10. This condition may occur because of pricing strategy; they separated themselves from the low-cost carriers. Their global position regarding to pricing strategy leads decrease in the physical utilization.

**Difference Between Global Sourcing and Just-In-Time in Airline Industry**

In the literature review part, it has been stated that in JIT methods stuff should be delivered with small quantities recurrent intervals and fast problem-solving cycles; however the huge distance of global sourcing regularly commands transportation in large batches with long logistics lead-times (Fawcett and Birou, 1992). The airline companies, who generate global sourcing efficiently, consider the customers or passengers as their staff. Also, if lead times are considered as the time that passengers wait in the airports, the explanation of “How airline companies generate global sourcing?” can be stated. The filling rates of the air lines are very important for the air line companies. Thus, air line companies sometimes make the passengers who will transfer to other airplane and other destination, wait at the airport; on the other hand air line companies should make that by considering customer satisfaction. Air line companies have two types of customers: first type is the customers who are willing to fly comfortably, and the second type is the customers who are willing to fly with low cost. The first type customers do not want to wait long in the airport. The second type customers accept waiting times in the airport. Generally, the customer or passenger portfolio of THY, is more close to first type. Case company tries to carry out both Just-In-Time and Global Sourcing efficiently for increasing the optimization as well as customer satisfaction. Regarding to these mentioned issues, two examples can be stated. If the passengers want to fly with Ryanair or some similar
companies that serve low-cost tickets, passengers are offered with 1 choice. In other words, passengers see just 1 choice on the websites of companies when they buy the tickets; they are offered to wait many times when they need to transfer to other destination. On the other hand, they offer different choices to customers on its website. For instance, available choices for a passenger who wants to fly from Istanbul to San Diego. This passenger can find various choices with different prices and different waiting times on the website of the company. These choices can be provided by being a member of Star Alliance.

- **Risk Mitigation and Turkish Airlines**
  According to the review of annual reports of case company, it was found that they have developed a project which is called “Enterprise Risk Management (ERM). ERM is composed mostly about financial issues like commodity price, credits, interest rates, foreign exchange rates, cash flow. In the last annual report (2010), they also put new headline to the project “Carbon Emission Risk Management”. It seems that the reason for putting it is new law which is about carbon emission. They need to pay for a penalty as investments on environmental projects if they exceed the limit for carbon emission which is defined in aviation industry quota. Even it is known as a social responsibility, authors are discussing about subject why it is new in risk mitigation plan because it was also mentioned as a financial issue.

- **Guideline for effective global sourcing**
  In the literature part, according to Fagan (1991), having lower-cost regarding to labor cost, facility costs, oil cost, land cost etc. is very considerable aim to be managed in global sourcing. Also, the contribution of the management, technological support in this aim has been highlighted. According to the interviews with the financial director of THY, it is stated that they consider the customer satisfaction more heavily than the aim of decreasing related costs. The company is willing to increase customer satisfaction as well as understand the changing desires of customers; in this manner, THY generates luxury and comfortable services by applying the required prices instead of decreasing the cost and serving less comfortable. Furthermore, case company believes the possible passengers amount when it selects the airports for new destinations instead of considering low-cost airports.

- **Global Sourcing and Marketing Competitiveness**
  It has been stated in 2.5 of the literature part, Toyota has put different kind of engines for different locations. So they have increased economies of scale and standardization in those components. For instance, gasoline engines in Indonesia, steering components in Malaysia, transmissions in the Philippines, and diesel engines in Thailand (Nikkei Net Interactive, 2002 cited in Kotabe & Murray, 2004, p.8). THY carries out different services for different customer segments in order to compete with the competitors in the global market. For instance, THY has another brand name called as AnadoluJet, and the aim of the establishment of this company, is to serve for different customer segments who are willing to buy low-cost tickets rather than luxury services. By having AnadoluJet company, case company prevent the possible substitution of the customers; in other words, THY attracts this mentioned customer type with AnadoluJet company and have market share in global market. For example, the catering services of the economy class in AnadoluJet are served with extra payment, whereas they are free in THY.
6. CONCLUSION

It is clear that THY desires to generate profitable operations and to keep up with changing conditions in global market, because it is like an obligation in order to compete in global market. Besides, in order to cope with its competitors in global and competitive market, THY desires to improve their integrated and synchronized systems internally and externally.

As regards the one of the most important issue for this mentioned desire in global market, global sourcing is very considerable. In this study, global sourcing issues and corporate social responsibility has been taken into consideration regarding to airline business as well as the senior company both in international market and domestic market, has been analysed.

That thesis combines the conditions of global sourcing and corporate social responsibility concerned with their literature and use of at the moment based on THY. After the examinations conducted with the directors of the company and annual formal presentations and reports, it has been seen that THY works efficiently and effectively with respect to developing concepts.

In airline industry, catering services are very considerable. Regarding to this, how Thy executes catering services for long-term flights have been stated in this study related with the global sourcing in the literature. As another important source that is personnel and execution of personnel; especially, cabin personnel execution as well as how THY gets the most possible benefit from them have been stated.

Within global sourcing concept, the main items are very important for any related sector. In airline industry, air planes take place at a very considerable level besides usage of them efficiently is taken into consideration in detail. In this manner; first of all, how THY assigns the airplanes and how it manages the occupancy rate efficiently have been analyzed. Then the purchasing strategies of air planes have been introduced in the light of interviews generated with production planning & control director.

As regards corporate social responsibility, it has been stated according to conducted literature review, then corporate social responsibility in the THY has been searched. It has been obtained that THY has supporting activities mainly two important concepts regarding to city Istanbul and aid organization Turk Kizilayi. It has been understood that THY does not generate any profit margin from the corporate social responsibility activities, it involves the activities regarding to corporate social responsibility for providing help and supports.

This study also provides reliable and updated business transactions of THY including the detailed information of the company. Furthermore, authors tried to analyze the differences, lack of points, and adaptation to changing factors in global market regarding to selected company and the literature part. Finally, THY follows beneficial strategies that are proper the company’s synchronized structure and there will be more useful improvements regarding to having the benefits of global sourcing, use of sources, and corporate social responsibility.
7. FUTURE RESEARCH

This study can be improved by considering other internal and external factors. As regards the internal factors, the global sourcing and corporate social responsibility issues can be analyzed for all company corporate and company departments. Regarding to external factors, the advertisement & marketing activities can be seen as a source for the companies globally. Therefore, these possible new trends can be considered possible subjects for the future researches.

Additionally, the company researches can be expanded by the contribution of different company analyses, other possible airline companies can also be included. Then new comparisons can be generated in the future. In this manner, new concepts can be generated by analyzing the different companies and this also provides a big picture for the subject to observe similarities and diversities on the implications.

Authors realized that marketing strategies are also included in sourcing strategies because advertisements vary with respect to the region. Hence, sourcing strategies can be researched with respect to sociology to identify key points for marketing. Also, this can provide companies to get more profit margins.
8. REFERENCES


Appendix A- Sourcing in Low-cost Countries

Investments in Low-cost Countries in 2003-2005

Cited from Morschett, et al. (2010)

<table>
<thead>
<tr>
<th>Country</th>
<th>Product Area(s)</th>
<th>Investment (in million SEK)</th>
<th>Production Start</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>refrigerators</td>
<td>1,200</td>
<td>2005</td>
</tr>
<tr>
<td>Hungary</td>
<td>refrigerators, freezers</td>
<td>600</td>
<td>2005</td>
</tr>
<tr>
<td>Russia</td>
<td>washing machines</td>
<td>80</td>
<td>2005/2006</td>
</tr>
<tr>
<td>Poland*</td>
<td>tumble-dryers</td>
<td>270</td>
<td>2005</td>
</tr>
<tr>
<td>Poland</td>
<td>washing machines</td>
<td>500</td>
<td>2006</td>
</tr>
<tr>
<td>Poland</td>
<td>dishwashers</td>
<td>275</td>
<td>2005</td>
</tr>
<tr>
<td>Poland</td>
<td>cookers</td>
<td>380</td>
<td>2006</td>
</tr>
<tr>
<td>Thailand</td>
<td>professional washing machines</td>
<td>90</td>
<td>2005/2006</td>
</tr>
<tr>
<td>Thailand</td>
<td>washing machines</td>
<td>80</td>
<td>2003</td>
</tr>
<tr>
<td>China</td>
<td>hobs, hoods</td>
<td>55</td>
<td>2005</td>
</tr>
</tbody>
</table>

* Increase in plant capacity

Source: Electrolux 2006, p. 15.

Number of Production Plants in 2003 and 2006

Cited from Morschett, et al. (2010)

<table>
<thead>
<tr>
<th>Region</th>
<th>2003</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>50</td>
<td>24</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>North America</td>
<td>21</td>
<td>8</td>
</tr>
<tr>
<td>Latin America</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Asia</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Oceania</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Africa</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>95</td>
<td>54</td>
</tr>
</tbody>
</table>

Appendix B - Global Sourcing as a strategic Purchasing Program

Source: Arnold (1989)
<table>
<thead>
<tr>
<th>Industry sector</th>
<th>Supply risks</th>
<th>Environmental and sustainability risks</th>
<th>Process and control risks</th>
<th>Demand risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>Risks caused by communication problems (suppliers may not understand company philosophy and product specifications)</td>
<td>Suppliers’ factories are not flexible enough and they are highly dependent on suppliers following the ethical rules</td>
<td>Lack of visibility in the supply chain increases control risk</td>
<td>Suspected violations of ethical norms can have an impact on demand</td>
</tr>
<tr>
<td>Fashion retail and wholesale</td>
<td>Dependence on key suppliers to develop products</td>
<td>The majority of products come from the Far East and this increases transport emissions. The use of chemicals such as fabric dyes in the factories is also of concern</td>
<td>Lack of formal risk management strategy, process and structure</td>
<td>Excessive sourcing from the Far East can have an impact on demand for some products</td>
</tr>
<tr>
<td>Consumer electronics</td>
<td>Problems due to diversified geographical locations of suppliers</td>
<td>Economic risks (for those countries hosting the suppliers and factories)</td>
<td>Unreliability of some transport modes (e.g. rail)</td>
<td>Impact of demand fluctuations on longer pipelines</td>
</tr>
<tr>
<td></td>
<td>Transport disruptions and delays (e.g. oil prices, accidents, customs)</td>
<td>Changes in tax regimes</td>
<td>Lack of transparency in their supply chain means they cannot conduct a total cost assessment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Suppliers’ business continuity risk</td>
<td>Changes in environmental requirements (e.g. WEEE)</td>
<td>Loss of intellectual property</td>
<td></td>
</tr>
<tr>
<td></td>
<td>High switching cost</td>
<td>Piracy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Price risks (negotiation power)</td>
<td>Corporate policies: suppliers are managed globally and agreements are established on a worldwide level</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Low quality risk due to reduced lead time</td>
<td>Developing local suppliers for reverse logistics</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Long replenishment times (lack of agility in responding to demand)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil/gas</td>
<td>Poor supplier reliability</td>
<td>Governed by local regulations, so restricted to using local sources</td>
<td>Dependency in the case of joint ventures, which are very common in the industry</td>
<td>Demand for products is highly dependent on global economic outlook</td>
</tr>
<tr>
<td></td>
<td>Poor quality</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Supply integrity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry sector</td>
<td>Supply risks</td>
<td>Environmental and sustainability risks</td>
<td>Process and control risks</td>
<td>Demand risks</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>-------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Mechanical and electrical</td>
<td>Increased end-to-end costs</td>
<td>Suppliers are dispersed too far from the marketplace, which increases carbon footprint</td>
<td>Product management decisions are critical but are not planned up front</td>
<td>Their customers do not understand what low cost manufacturing involves and the increased lead times for products</td>
</tr>
<tr>
<td>equipment</td>
<td>Low quality risk due to reduced lead time</td>
<td></td>
<td>Product variants also pose a risk with low cost manufacturing (LCM)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>High switching cost</td>
<td></td>
<td>Understanding what product to transfer is a risk</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Problems due to design modification and product variations</td>
<td></td>
<td>Risks related to that are difficult to forecast</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Problems due to diversified geographical locations of suppliers</td>
<td></td>
<td>When suppliers own the IPR there is a risk of dependency</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reduced flexibility</td>
<td></td>
<td>When the company owns IPR there is a risk of loss</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Increased inventory</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Continuity of supply</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Quality problems</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dependence on suppliers due to single sourcing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FMCG food and drink</td>
<td>Transport risks (due to road congestion)</td>
<td>Highly dependent on low cost sourcing, so any minor change in costs (e.g., transport, currency, tax) has a direct impact on competitiveness</td>
<td>Rejected loss of control (traditionally the company has operated with regional supply chains)</td>
<td>Corporate Social Responsibility issues (e.g., Ethical norms, food miles) can have an impact on consumer demand</td>
</tr>
<tr>
<td></td>
<td>Long lead times</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Quality problems can be very serious. Steps are taken to ensure that standards are met, primarily through supplier selection and auditing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aerospace</td>
<td>Quality problems</td>
<td>Cultural differences can affect performance</td>
<td>Obsolescence of products can be an issue</td>
<td>Effects on company's reputation through poor environmental management can have an impact on demand</td>
</tr>
<tr>
<td></td>
<td>Reliability and flexibility of vendors</td>
<td>Environmental issues are increasingly important as they can increase cost and affect the company's reputation</td>
<td>Loss of intellectual property</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Distance (more stretched chain)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ensuring capacity and capability of suppliers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Difficulties in setting up new suppliers and their support network</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>High switching cost</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix D - Import and Export of Auto component

Source: OECD ITCS- International Trade By Commodity Statistics, Rev.3 (a)-(c), India Department of Commerce (d) (cited in Matoglu & Vate, 2011)
Appendix E – Star Alliance Members and Statistics

- Member Airlines: 27
- Number of aircraft: 4,023
- Number of employees: 402,208
- Passengers per year: 603.8 million
- Sales Revenue (in US$): 150.7 billion
- Daily departures: 21,000
- Number of airports: 1,160
- Number of lounges: over 970
- Countries served: 181

Also detailed information about member airlines can be found on the link below;


Source: Star Alliance web site
## Appendix F - Factors affecting the choice of airports

<table>
<thead>
<tr>
<th>Passengers</th>
<th>Airlines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Destinations of flights</td>
<td>Slot availability</td>
</tr>
<tr>
<td>Image of airport</td>
<td>Network compatibility</td>
</tr>
<tr>
<td>Flight fare</td>
<td>Airport fees and availability of discounts</td>
</tr>
<tr>
<td>Frequency of service</td>
<td>Other airport costs (e.g. fuel, handling)</td>
</tr>
<tr>
<td>Flight availability and timings</td>
<td>Competition</td>
</tr>
<tr>
<td>Image and reliability of the airline</td>
<td>Marketing support</td>
</tr>
<tr>
<td>Airline alliance policy and frequent-flyer programs</td>
<td>Range and quality of facilities</td>
</tr>
<tr>
<td>Range and quality of shops, catering and other commercial facilities</td>
<td>Ease of transfer connections</td>
</tr>
<tr>
<td>Surface access cost and ease of access to airport/car parking costs</td>
<td>Maintenance facilities</td>
</tr>
<tr>
<td></td>
<td>Environmental restrictions</td>
</tr>
</tbody>
</table>

Appendix G - Degree of Outsourcing of Functions

<table>
<thead>
<tr>
<th>Airline function</th>
<th>Air France</th>
<th>British Airways</th>
<th>American Airlines</th>
<th>United Airlines</th>
<th>Cathay Pacific</th>
<th>Qantas</th>
<th>SAS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plane acquisition and ownership</td>
<td>b</td>
<td>b</td>
<td>b</td>
<td>b</td>
<td>b</td>
<td>b</td>
<td>b</td>
</tr>
<tr>
<td>Engineering and aircraft maintenance</td>
<td>a</td>
<td>a</td>
<td>b</td>
<td>b</td>
<td>b</td>
<td>a</td>
<td>b</td>
</tr>
<tr>
<td>Customer sales and ticketing</td>
<td>b</td>
<td>b</td>
<td>b</td>
<td>b</td>
<td>b</td>
<td>b</td>
<td>b</td>
</tr>
<tr>
<td>In-flight catering</td>
<td>c</td>
<td>b</td>
<td>d</td>
<td>a</td>
<td>a</td>
<td>a</td>
<td>a</td>
</tr>
<tr>
<td>Corporate identity and brand management</td>
<td>b</td>
<td>b</td>
<td>b</td>
<td>b</td>
<td>b</td>
<td>b</td>
<td>b</td>
</tr>
</tbody>
</table>

(a) Undertaken wholly in house or by wholly owned division or subsidiary.
(b) Partly undertaken in house or by wholly owned subsidiary, partly outsourced.
(c) Wholly outsourced to partly owned subsidiary or joint venture
(d) Wholly outsourced to an external supplier

Source: Rieple & Helm, 2008
Appendix H - International and Domestic Destinations

Source: Presentation of Turkish Airlines Inc. (2011, p.6-7)
Appendix I - Passenger Traffic – Total

THY Passenger Traffic
Jan-Apr'10 vs Jan-Apr'11

<table>
<thead>
<tr>
<th></th>
<th>Jan-Apr'10</th>
<th>Jan-Apr'11</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Landing</td>
<td>30</td>
<td>31.5</td>
<td>up by 11.3%</td>
</tr>
<tr>
<td>ASK</td>
<td>21</td>
<td>37</td>
<td>up by 22.6%</td>
</tr>
<tr>
<td>RPK</td>
<td>37</td>
<td>25</td>
<td>up by 17.4%</td>
</tr>
<tr>
<td>Passenger # (‘000)</td>
<td>42</td>
<td>46</td>
<td>up by 11.1%</td>
</tr>
<tr>
<td>L/F</td>
<td>68,7</td>
<td>68,2</td>
<td>down by 3.1 points</td>
</tr>
</tbody>
</table>

Source: Presentation of Turkish Airlines Inc. (2011, p.8)
Appendix J - Interview Questions

1. How do you manage your cabin crew? (Plan, flights, shifts)
2. Which parameters are used to select new airplanes?
3. How do you organize your flight plans? (flight numbers, airplane type)
4. Are there any models for organization of flight routes?
5. Which way is used to identify new routes?
6. Which factors are affecting your CSR strategy?
7. Do you have any buddy company for spare parts sharing?
8. Can you explain your utilization table?
9. We know that you have agreement with DOCO for your catering services but for long distances, do you use third party companies?
10. Which factors are important for you to select your suppliers or stakeholders?
Appendix K – Operating Expenses Unit Cost

Cost Per ASK (€ cent)

Change in CASK (€ cent)

*Financial statements released under Turkish CMB standard, converted to € Euro using average exchange rates

Source: Presentation of Turkish Airlines Inc. (2011)
Appendix L - Pricing Scenario of Turkish Airlines Corp. On Oil Market (till 31-12-2010)

Source: Turkish Airlines Annual Report (in Turkish Version), 2010 (p: 84)
Appendix M – Revenue Passenger Kilometers Regarding to World RPK Growth and THY RPK Growth

Source: Presentation of Turkish Airlines Inc. (2011)
Appendix N – Personnel Breakdown & Operating Efficiency

a) 

b) 

Source: Presentation of Turkish Airlines Inc. (2011)
Appendix O – Market Shares: International Based

Source: Presentation of Turkish Airlines Inc. (2011)
Appendix P – Transfer Passenger International to International

Source: Presentation of Turkish Airlines Inc. (2011)
Appendix R – Cargo Information Regarding to Revenue and Market Share

Revenue (Mn€)

Market vs THY

Turkish Market

THY

THY Market Share

53
Source: Presentation of Turkish Airlines Inc. (2011)