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Among the world's airlines, Swissair has long been one of the most venerable. Formed in 1931, the Swiss national carrier was known for safety and service that instilled deep loyalty among travelers. But early in October, Swissair Group, the carrier's holding company, tumbled into bankruptcy, to be saved, perhaps only temporarily, by a government- and corporate-financed rescue announced on October 22.

At first glance, Swissair Group fell victim to the same plunge in ticket sales that afflicted carriers worldwide after the September 11 terrorist attacks. But industry experts say the company's woes run deeper, involving management missteps that could occur at any corporation as well as troubles rooted in the economics, politics and culture of Europe.

Traditionally, European airlines tended to compete "based on service quality and not so much on fares," said Wharton management professor Peter Cappelli. This left them inefficient and vulnerable as European countries began to encourage a more competitive market in the 1980s and 1990s. "Suddenly, they are sort of accountable."

After years of profitability in the 1990s, Swissair racked up enormous losses in 2000 and 2001, and its shares have fallen by 97% in the past 12 months. Under the $1 billion rescue plan, financed primarily by the government with help from some major Swiss banks and other corporations, between 9,000 and 27,000 of Swissair's 70,000 employees will lose their jobs. In addition, Swissair will no longer be the national airline. That role will fall to its former subsidiary, Crossair.

Lost revenue after the terrorist attacks was a serious problem for Swissair, but represented only "the last nail in the coffin," says Nirmalya Kumar, professor of marketing and e-commerce at International Institute for Management Development (IMD), a business school in Lausanne, Switzerland. Kumar, a visiting professor of marketing at Harvard this year while on sabbatical from IMD, says Swissair's biggest problems began in the mid-1990s with a series of partnerships with other airlines.

As a small country, Switzerland cannot provide enough passengers to support a major airline, putting Swissair at a disadvantage in competition with larger countries' national carriers, such as Air France and Lufthansa.

In the early 1990s, countries in the European Union relaxed rules on airline operations, creating a more competitive environment. In response, many European airlines joined together in partnerships such as OneWorld, Sky Team and Star Alliance. "In that musical-chairs game, Swissair kind of got left out," Kumar said.

Trying to catch up, Swissair signed a partnership deal in 1995 with the Belgian airline Sabena, acquiring a 49.5% stake. That was the most it could take, since companies in non-EU countries are prohibited from acquiring majority ownership of EU companies.

Then in 1998 Swissair led in the creation of the Qualifier Group, an alliance of 11 airlines, including carriers in Portugal, Turkey, Poland and other countries. It also entered partnerships with American Airlines and South African Airways to improve service to and from the U.S. and South Africa. By early 2001, Swissair operated 75 aircraft and served 210 destinations in 75 countries.

This "empire building" helped get Swissair into trouble, said Bruce Allen, professor of business and public policy at Wharton. The company had too much debt, high costs and too little revenue. In a four-year period in the '90s, Swissair doubled its workforce. Recently, it had a staggering $10.5 billion in debt and was considered the most financially stretched of the European airlines.

Swissair, like many airlines, was hit hard in 2000 by high fuel prices and the slow U.S. economy, which cut deeply into business travel. Early this year, chairman and CEO Philippe Bruggisser, who had engineered the expansion, resigned. He was replaced by Mario Corti, the highly regarded former CFO of Nestle. After an April 2001 reorganization, Swissair was one of eight units held by Swissair Group, including Crossair, a cargo carrier, an airline catering company and other subsidiaries. In May, Swissair launched a new advertising campaign emphasizing the airline's "Swissness" in the belief that the country is viewed as clean, efficient, wholesome and welcoming.

But that was not enough to turn the business around. Among the most serious problems was that "Swissair chose really bad airlines to partner with," Kumar said. Most were unprofitable, including – despite its good reputation – Sabena. Because Swissair held only 49.5% of Sabena, it could not make the changes needed to staunch that carrier's losses.

While labor unions and management tend to have a cooperative relationship in Switzerland, such is not the case in many other European countries, according to Z. Jan Kubes, professor of strategy and business policy at IMD. European carriers are not able to quickly cut labor costs in response to a downturn, as American ones do, he said. Swissair executives, he added, had little experience dealing with tough unions.

At the same time, Swissair had antagonized passengers by cutting the quality of its service, beginning in the mid-1990s. "They were charging champagne prices for a beer product," Kubes said. Moreover, in Europe, unlike in the U.S., passengers often have a good alternative to air travel – rail.

In addition, many of Swissair's European competitors received valuable government support, Kubes added. In France, for example, 130,000 government employees are permitted to fly only on Air France while on government business, and they must go first class.

Kumar noted that in most European countries it is a matter of pride to have a national airline. Hence, there are more carriers than the market can support. National pride also forces many airlines to operate primarily from facilities in their home countries, while it would be more efficient to use a hub and spoke system like in the U.S.

Despite all the obstacles, Corti was making progress in the spring and summer trimming expenses with moves like selling a chain of hotels. Some observers felt Corti should unload the airline and focus the business on its big catering, airport-retail and baggage handling operations. But if the airline were to collapse, its hub in Zurich would likely be reduced to a feeder for airports in Paris, Frankfurt and other large European cities. That would be a blow to national pride, and, without top-quality air service, Switzerland might lose its position as an attractive business and tourism location. So Corti opted to do the opposite – preserving the airline by selling off other assets.

Then the terrorist attacks pulled the rug out from under, making Corti's progress all but irrelevant. On October 5, the company filed for bankruptcy. Thousands of passengers were stranded when the airline stopped flying, although it used a $281 million government infusion to limp back into the air with limited service two days later.

The government-led rescue announced October 22 is meant to keep the airline in the air through next March in hopes that ticket sales will improve enough to keep it going after that. Essentially, the bailout involves a restructuring of the regional carrier Crossair, which will take over Swissair's long-haul routes. Crossair, a leaner, more efficient operation than Swissair, could eventually take the Swissair name.

In the future, however, other European carriers may go under as well. "The problem is that there are just too many airlines and a consolidation needs to take place," Kumar said. "But the consolidation cannot take place because every country has their flag wrapped up in the airline."

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