



## **THE TRANSFORMATION OF STRATEGIC AIRLINE ALLIANCES AND AIRLINE JOINT VENTURES: WHERE ARE THEY HEADING?**

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### **ABSTRACT**

Airline companies has been incorporated various cooperation forms to handle risky situations arising from high competition level and to gain sustainable competitive advantages. The aim of this research is to reveal the transformation that strategic airline alliances and airline joint ventures have, with their current situation. In this research, which adopted the qualitative research design, semi-structured interviews were held with top executives of five traditional airline companies affiliated to strategic airline alliances and airline joint ventures. The most significant finding obtained as a result of the research is that airline companies affiliated with strategic airline alliances are beginning to question alliances' structures though airlines accept that alliances are still valuable to them. Another remarkable finding is that airlines have begun to move out of classical form with newly launched form of joint venture.

**Keywords:** strategic airline alliances; airline joint ventures; corporate sustainability



## 1. INTRODUCTION

The deregulation act in the airline industry in 1978 paved the way for the entry of new airline companies into the airline sector. With the entrance to the sector cleared, the number of airlines operating in the market increased, and with the increasing number of airlines, competition between airline operators increased, changes in market shares effected and the occupancy rates of airlines operating in the market decreased.

Prior to liberalization, in the sector that was far from the competitive oligopolistic market structure, airlines could easily transfer high operational costs to ticket prices. After liberalization, and with the market becoming competitive, airlines are faced with a number of problems regarding the reflection of costs on ticket prices. This situation made it quite difficult for airlines to sustain their survival. They went through operational and financial difficulties and faced bankruptcy, mergers and acquisitions.

Towards the end of the 20th century, airlines, unable to attain the desired outcomes from mergers and acquisitions (M&A), began looking for new strategies that would help reduce operational costs and gain competitive advantages for them to continue their operations. Consequently, and especially during the last two decades, airlines have stepped up efforts to create and strengthen global service networks. This has of course been accomplished through strategic airline alliances and airline joint ventures (JVs).

Strategic alliances and JVs are seen as a significant source of competitive advantage by organizations and businesses operating in high cost and highly competitive sectors such as the airline industry (Campbell et al., 2002). Ülgen and Mirze (2013) described strategic alliances as mutually beneficial collaborations made by more than one enterprises without establishing a new business and without losing their identities.

Strategic alliances, which are important forms of cooperation used by businesses, are employed in many sectors from production to service. They are also seen as a shorter form of the merger strategy (Zhang & Zhang, 2006; Goh & Uncles, 2003). A JV, on the other hand, is an agreement of collaboration between two or more enterprises for the purpose of accomplishing specific tasks (such as; dominating target market together) which would otherwise not be achieved in the absence of one (Wallace, 2004).

Strategic airline alliances and airline JVs fundamentally based on code sharing, which are the two major forms of cooperation commonly used by traditional airline operators, offer significant advantages both financially and commercially to airlines using them (Glisson et al.,



1996; Oum et al., 1996; Iata 2011). Code sharing means that an airline sells to its passengers, tickets for a common flight organized by another airline(s) (with which they are in agreement) as if it was its own (Iata, 2011; Ringbeck et al., 2010).

Airlines use alliances to gain access to the global service networks, to increase their recognition by taking part in new markets without using aircraft, and to provide services on routes where they would not make profits if they operated alone (Rajasekar & Fouts, 2009). Airline JVs are also referred to as route mergers. It also offers the airline management advantages of attaining a merger-like situation in a certain market, deepening cooperation and bypassing ownership issues. JV agreements require special permission from competition boards (Kleymann & Seristo, 2004).

"Joint ventures", in which airlines agree to share revenue on an international route, provide for closer cooperation and unity of international services (Iata, 2011). Line-based JVs are a way for most airlines to circumvent consolidation, mergers and acquisitions. Partners in the JV cooperate on departure times, type of aircraft to be used, distribution and marketing. Thus, they get the chance to gain access to customers in areas where they are weak (Ringbeck et al., 2010).

The aim of this study is to demonstrate the current situation and the process of transformation of the strategically significant strategic airline alliances and airline JVs with, especially common among traditional airline operators. To this end, semi-structured interviews with five traditional airline managers were used to answer the following question:

- How are strategic airline alliances and airline JVs transforming?

## **2. PREVIOUS STUDIES**

Airline companies, in an industry where competition is high and there is a struggle to survive with low-profit margins, use a variety of forms of cooperation. Two of these, the strategic airline alliances and airline JVs, are emerging as the forms of cooperation that provide significant competitive advantage. In an industry that operates at high fixed costs, these forms of cooperation, two of which are helping airline companies enhance their efforts to maintain operations, have not escaped the attention of authors in the field, especially strategic airline alliances.

In general, studies dealing with strategic airline alliances have focused on the emergence of strategic airline alliances (Pels, 2001; Gudmundsson & Rhoades, 2001; Fan et al., 2001), alliance processes (Gudmundsson & Lechner, 2006; Agusdinata & Klein, 2002;



Kleymann, 2005; Gaggero & Bartolini, 2012), network connectivity and productivity (Hsu; Shih, 2008), access to resources and mobilization of resources (Casanueva et al., 2014), the benefits of alliances (Morrish & Hamilton, 2002; Iatrou & Alamdari, 2005; Weber 2005; Goetz & Shapiro, 2012), the effect on the airline profitability (Zou & Chen, 2017; Douglas & Tan, 2017; Oum & Zhang, 2001), comparative performance analysis (Min & Joo, 2016), current situations and the future (Oum & Park, 1997).

The single study that considers the current state and direction of strategic alliances, Oum and Park (1997) draws attention to the fact that alliances, particularly those involving large carriers, have a sustainable structure and are increasingly stronger as they offer significant gains to their stakeholders. The study by Oum and Park (1997) in 1997 proves how powerful the forecasts of strategic airline alliances are, given that they are still effective and important despite over the past 20 years.

Studies that deal with airline JVs were found to be very limited and, in fact, only two studies were found. Emsley and Kidon (2007) conducted an empirical study on how trust and control are handled at different levels of an organization using the case of a JV between two international airline operators. The findings of the research confirmed the two proposed research hypotheses. Ustaömer et al. (2015) considered the impact of the JV between British Airways (BA), American Airlines (AA) and Iberia Airlines (IB) on the transatlantic competition. The results of the study did not show any significant change in ticket prices of BA, AA, and IB after the start of the JV.

Despite the overwhelming literature on the various aspects of strategic airline alliances, studies on airline JVs were found to be very limited. With no study in the aviation literature on the current situation and transformation of airline JVs, and twenty years after the first and only work on the current situation and transformation of strategic airline alliances, there is need to outline the changes experienced in the two frequently used forms of cooperation by airline operators today. This study carries an originality value, with regards to the stated motivation, in filling the gap identified in the literature. It is anticipated that it will contribute both to the literature of strategy and management, and also help in the decision-making process of managers in the airline sector.

### **3. METHODOLOGY**

The qualitative research design was used in the research. In qualitative research, the researcher is the person who, with the objective of accessing data, spends time on the field,



personally interviews the research participants to obtain their knowledge and experiences, and uses the information and points of view obtained in the analysis of data (Yıldırım & Şimşek, 2006). The qualitative researcher uses existing qualitative methods or approaches to conduct research on the subject matter.

This method entails coming together with the people involved in the subject under consideration to collect data, analyzing the data to see the big picture through induction and presenting themes or models (Creswell, 2007). The qualitative data obtained in the research are analyzed using thematic analysis, which is the most appropriate inductive techniques for analysis using interpretations (Alhojailan, 2012).

In the study, a semi-structured interview technique, a qualitative data collection tool which gives the researcher more flexibility during the interview, was used to increase the depth of the data obtained from the participants. Participants were drawn from the senior executives of five traditional airline operators operating in Turkey.

Airlines are affiliated with strategic airline alliances and three of them are also affiliated with airline joint ventures. In this research, criteria of participatory sampling methods and snowball sampling approaches were used. The participants were reached through purposive sampling criteria and snowball sampling methods.

Given the fact that a deeper perspective could be obtained from a purposive sample, much information can be obtained within the scope of the research when these sampling methods are used (Patton, 1990). As a criterion, the survey is based on the selected air-line companies being a member of a strategic airline alliance and an airline JV. Three of the airlines with whom interviews were done are members of strategic airline alliances as well as involved in strategic JVs.

Table 1: Demographic and Occupational Data of the Participants

	Participants				
	Female	Male	Female	Male	Male
<b>Gender</b>					
<b>Age</b>	43	37	50	31	45
<b>Level of Education</b>	Bachelors	Masters	Bachelors	Masters	Bachelors
<b>Job Position</b>	Deputy General Manager	Head of International Relations and Agreements	General Manager	Regional Station Manager	Deputy General Manager
<b>Term of Employment in the Position</b>	18 Years	2 Years	8 Months	1 Years	7 Years



<b>Term of Employment in the Company</b>	16 Years	6 Years	8 Months	9 Years	7 Years
<b>Term of Employment in the Aviation Sector</b>	26 Years	6 Years	18 Years	11 Years	23 Years
<b>Company affiliation</b>	Alliance Member	Alliance and Joint Venture Member	Alliance and Joint Venture Member	Alliance and Joint Venture Member	Alliance Member

Appointment with two of the participants was made through LinkedIn.com, a social network known to be a site for professionals, while two others were contacted by phone calls to the head offices of the airlines they work for and the last one contacted through one of the already interviewed participants. To check for the clarity and the appropriateness of the interview questions, opinions were sought from both field and qualitative research experts.

In addition, a pilot interview was conducted to test the validity and reliability of interview questions and questions were finalized according to the opinions received and the pilot interview. The interviews were held between April 29 and May 25, 2016. The interviews were recorded, with permission of the participants, using the voice recorder. Table 1 above shows the experience that participants have attained in their current professional positions, along with their experience in the aviation sector and other demographic data.

Participants were coded as P1, P2, P3, P4 and P5 by the researchers. However, this information was not explicitly stated since the participants were committed to keeping confidential any information that may harm them and the organization they work for during the semi-structured interviews. Only the researchers knew which code represented which participant.

## 4. FINDINGS

### 4.1. Airline Sector

#### 4.1.1. Competition Patterns

From the findings obtained in responses of the participants, it is possible to say that there are two types of competition in the airline sector. The first of these is the view that competition is based on service while the other supports the view that competition is based on price. The statements of participant 4 that support the view that competition in the airline sector is based on service is as follows:

“For instance, in a pricing agreement, we get a price. Nobody goes above or below that price by much. This is for us, that is...for airlines that are members of IATA. They go with pricing at the same level. They don’t do big promotions or something like that. There are companies that give us ground handling services. The price we pay to those firms, for instance, is the same. They don’t give a lower price to one and a higher price another. Those firms also have an agreement. They also keep their prices the same. Competition can only be in the service. Competition is kept at par by pricing. This is our cooperation. But we do compete in service. He who gives the better service earns more.”

In the statement above, P4 established that competition in the airline sector is realized only in the sense of service. The same participant supported his sentiments thus:

“For this reason, people beat the competition together. But this is not all, you must bring yourself to a different position with the service you give, your staff etc. Because when you all give the same thing, it doesn’t make sense anymore... same prices, same types of aircraft, same times etc.... You must, therefore, stand out with the human factor ”.

P5 used the following statement to indicate that competition in the airline sector is effected in terms of price:

“There is competition in all sectors now. But the competition in aviation is very hard on us. It is a competition that entirely rests the price policy. Here, the services provided by an airline, the security services provided by the airline, and the fact that the airplanes are newer and more reliable are unfortunately ignored. Right now, strategic competition is only on price. Passengers are also making choices based on this. If three airlines are flying to that destination, and one is flying at a higher price, if it is a reliable airline, and if they have flown that airline before, then they may prefer it. But first of all, if there is an airline offering half the price, frankly that is where the passenger is headed. There is a competition on the price. As I have said, if you have 11 planes flying to the far East every day, and you are thinking of the generally preferred flights of seven in the morning and six in the evening, then you will usually find at least 4 or 5 airplanes wherever you go. Those airlines are going into the price competition.”

P5 supports this state using an example:

“I can say this about my airline. As an airline, we serve to the Far East. Istanbul, as I have mentioned, is the main destination of the X cities we operate in. Apart from the United States, the number of tickets sold in Turkey for the Far East market is, unfortunately, very small. Let me put it this way, the share of the Far East in all the tickets sold throughout the year





may be only 10%. Since the bulk of Turkey's tourism and volume of business is generally with Europe and the Middle East, the Far East market is one that attracts what we refer to *high plus* or *out plus* tourists with weekly travel expenses that start from 1000 dollars on the lower side and rises to between 1500 and 2000 dollars. We want to expand this market. In terms of competition, there are too many airlines flying to Turkey from this region. By my last statistics, if I'm not mistaken, there are 78 weekly flights by different airlines to the Far East. I mean, when you divide the figure by seven, an average of 11 daily flights depart from Istanbul's Atatürk airport to the destinations I mentioned in the Far East. The market is small but very busy in terms of operation. For instance, the German market is quite big. The operation there is pretty big as well. In that market, you can compete both in terms of price and service. But here, dividing the already small number of passengers among the many airlines does not offer any advantages. This is a disadvantage. The airlines that want to translate this to their advantage, can only reflect it in their prices. When reflected in their prices, a situation like this arises. Probably we'll see that for as long as a year. A ticket to the Far East will be at the level of a ticket to Europe. We look at this in the same sense as America. In the past, going to America was incredibly expensive. About 1200, 1400, 2000 dollars. Now we talk about 500 dollars. And you fly for about 10 hours, 11 hours."

#### **4.1.2. 4.1.2. Cost Structure**

According to the findings of the negativity of the dynamic and costly nature of the airline industry, when airlines cannot cope with the high costs, they lose their chances of competing in an independent manner by either getting acquired by a larger airline or getting into a merger with another airline. Participant 2 described this situation saying:

"The aviation sector is a very dynamic sector and changes quite rapidly. Small airlines merge with big airlines for economic reasons. Because we are in a sector with high costs and low-profit margins. We work in a sector where ticket prices are continuously falling. Looking at North America, this is a very developed region in this respect.

There, we have the beginning of bigger companies with the mergers of Northwest Airlines and Delta, American Airlines and US Airlines, and the merger Continental and United. Air France-KLM is an example in Europe. Here, we had Transavia as a low-cost option. Then, in the IAG group, there is British Airways and Iberia's Violing Company. There is also the Lufthansa group with Swiss, Austrian and Lufthansa, as well as Germanwings and Eurowings.





In terms of cooperation, there are also smaller companies in Europe. There is Polish (LOT) in Poland, Scandinavian SAS Airlines. These are small, non-global companies that give regional services, and are continuously involved in the acquisition markets as a form of cooperation.”

With the high-cost structure of the airline industry and the increasing costs occasioned by the development of technology every passing day, P5 had the following to say:

“...the airline industry is already high cost and it is difficult to survive only low costs. However, much you earn, the airline is an open trade. You start with five planes today, if you want to grow, you expand that to 10 and later to 20. We have 162 planes now. Every year you have to add at least 10 planes to your fleet because the network is growing. Apart from this, if you want to be among the top 10 airlines accepted in the world, then you must have all the incoming new generation aircraft. For example, right now, we have 12 A380 Dreamliners.

One of these costs \$ 480 million. You have to grow up. And to do that, we are in the process of buying new planes to expand and modernize the fleet. You have to strengthen your fleet each passing day. As an airline, if you want to provide A + service, you have to provide first class and business class services. When you give these services, the expenditure on these services to the expenses incurred in receiving the passengers become much more. Every day, frankly, there is an increase in the services that their airports provide to us.

Accommodation, flight push services, catering service, passengers check in and check out times. Each of these processes is reflected in our costs. Unfortunately, airlines cannot control these costs. We are only informed of these by the airport operator or government. We also need, as much as possible, discounts on the services on our workplaces in terms of good service and continuity. With the development in technology I have seen since ‘93 the cost should normally go down a little more. But, unfortunately, the costs are constantly increasing because everyone wants to make a profit.”

Participant 5 used the following statement to stress the fact that the airline industry has a structure that has not seen a decline in its costs over the years, and that the inability of airlines to overcome the cost element arises from the more uncontrollable costs.

“Right now, there are costs you can control. You can make short, medium and long-term plans for your own airline, plan your aircraft purchases and your network accordingly. Other than this, there are factors like fuel costs which no one in the world can control, not even the producing countries can. Then there are the services you receive from the airport. You



cannot control these. If the airport is new and one which everyone wants to fly to, the services are even more expensive. But if you are flying to a small airport then airport may offer you discounts to welcome you and encourage you to fly there. For example, if you are flying to Heathrow London, you have to pay a lot more money. More precisely, you have to pay to be able to fly there and get a slot there.”

Airlines are in the contest to increase the efficiency of their operations by trying to keep their occupancy rate high on the one hand while doing business at high costs on the other hand. Thus, they benefit from economies of scale and aim to be economically sustainable by maintaining high occupancy rates against the high costs they face. In this regard, participant 2’s response is as follows:

“Of course, productivity is a very important issue. Since we work in a sector with very low-profit margins, we really need to increase our productivity. We need to keep the expenses at the lowest level... The important thing here is to fill that plane. When a seat goes empty, we do not have the luxury to sell, fill it again. So, we have to get the highest profit margins at the lowest cost”

#### **4.2. The Direction of Strategic Airline Alliance**

Participant 4 said the following about the finding on the current state of the strategic airline alliances in the sector and the share each of them has:

“Let me give, again, you some information about the mileage program in the world. We, as SkyTeam, do this. On the other side is the Star Alliance, of which TK is a member. Oneworld is another. According to a recent statistic, Star Alliance has 34 percent of market share and SkyTeam has 31%. Strategies are about the plans that airlines make every year. These memberships may change. Some airlines may leave these memberships. Frankly, in terms of the competition, the airlines just don’t pursue each other price wise. They also go after each other in terms of services or try to grow within the memberships they are affiliated to.”

Strategic airline alliances are able to offer great advantages, through their characteristics, to their member airlines. The findings from the different participants may be used as examples. First, the views of participant 5 on this issue are as follows:

“...what happens in such memberships? Two or three airlines come together. You do a code-sharing deal. You get a lot of benefits here; you create an organization that offers passengers a common lounge or a system the better luggage services...”



The same participant went further to describe the benefits derived from the alliance they are affiliated to as:

“The best example of this is SkyTeam. Let’s look at it this way, initially, it was a mileage and membership program started by Korean Air and Air France. This program was set up to benefit passengers in destinations where two airlines flew. Later, with the joining of other airlines, it got 20 globally accepted members. SkyTeam does not have an online operation in Turkey. But it has 10 airlines (the number of SkyTeam members who fly to Turkey). Our goal here is to present our passengers with the opportunities of all the 20 airlines all over the world by offering membership to a single airline.

In this way, the passengers may get cheaper tickets. In addition, there may be more attractive prices on *worldwide* tickets in all the destinations where the passengers fly. They can enjoy the lounge services in the regions of these member airlines as well as the other regions. I think that these 20 airlines have come together to grow their customer numbers, even though they are in competition with each other. This is also one of the biggest examples of competition...”

Participant 4, a senior executive of another SkyTeam member airline, also expressed the benefits that the alliance has brought to airline operations:

“We are members of SkyTeam. An alliance of about 10 airlines. For instance, we have a lounge. Our meals are served from the same place. We work with the same ground handling company. The same rules apply. We follow the same punishment procedures. We also have a single frequent flyer program. We all give the same mileage. So, we're all the same. And we are doing these together with Air France, Saudi Airlines, Delta, KLM, South Korea, China...”

P1, a manager in the Star Alliance member airline, stated the benefits of the alliance’s membership to the airlines:

“Of course, there are contributions. Let’s say airline X has a private lounge, all the Star Alliance members can use this lounge instead of opening a lounge. They will pay for it, but they can use it. This is one condition of the Star Alliance, and they know how to make use of it. Being a member of the Star Alliance, this lounge must be accessible to Star's special customers who have the Star Alliance gold card. I can’t have anybody use it who is not a member of the Star Alliance.

In the same way, Y airline has to give me access. Airlines similarly award mileages to passengers of other airlines when they fly with them. A member of the frequent flyer program



of X airline, a member of this alliance, also earns miles when he flies with Y airlines, a member of the same alliance. A passenger with the mileage card of Y airlines earns miles in a similar manner. This is the advantage of being an alliance member. These are not bad practices...”

Participant 5 expressed his support for participant 1 regarding the sharing of private lounges within strategic airline alliances with the following statement:

“Let’s look at another example. SkyTeam has a lounge at Ataturk Airport, which is a resting area. We allow the use of this lounge. If you buy a ticket from the airlines that currently online, our first and business class passengers can enjoy the services of this special lounge at Ataturk Airport. This is a very big deal for us. Even though Ataturk airport is very crowded with limited lounge area, all airlines provided this service separately. But now, it is a service under the SkyTeam roof, and only SkyTeam airlines can use it. We also positively offer it to the SkyTeam passengers.”

With regards to the findings, it is easy to understand the importance of membership to a strategic airline alliance, especially to big airlines that intend operate at the top of global aviation. This is because these memberships accord the airline a great competitive advantage over the others that do not have any alliance memberships. P5 explained this position thus:

“As I said, if you are not taking part in any of these memberships, if you are trying to do all these by yourself as an airline... it is impossible for you to do so. When a new airline comes in and they just conduct their own operations offer their flights for sale without joining SkyTeam, Star Alliance, or Oneworld, or without a codeshare plan...only what we call low-cost carrier with a small fleet can do this. But if you want to play top, you have to do all these.”

According to another finding on strategic airline alliances, standardization of the services provided within alliances is an important issue. This can be realized through several forms of cooperation. Examples of the forms of cooperation airlines within an alliance use include Code sharing, private passenger lounge sharing and integration of frequent flyer programs. P2 used the following statement to identify code sharing as the most common form of cooperation within an Alliance and establish the importance of standardization:

“The type of cooperation we use most is codeshare. As a result of these agreements, we have enlarged and expanded our flight network. Even if the flight is not very efficient in terms of cost,... We have more flight points... in our portfolio and to which we can carry our passengers. With this code share agreements, we can fly our passengers to the very last destinations with the same service and quality...”



Airlines may terminate their code-sharing agreements initiated within a strategic airline alliance, just as they would non-allied practices, should they encounter any associated disadvantages. This is how P2 explains this situation:

“... In this context, after entering the X alliance, naturally, the codeshare begins. At this point, you need to set your targets in pairs. There is a sense of stability in reciprocated work... we canceled a codeshare agreement 4 or 5 years ago. Because it was a disadvantage to us.”

There are also other cooperative efforts, outside the code sharing, private passenger lounge sharing and the integration of frequent flyer programs in which members of the same strategic airline alliance may be of benefit to each other. These include practices such as using the ground handling service and catering service companies of the host airline and constant information sharing.

P4 emphasized the increased benefits from this cooperation, especially, with regards to information sharing among members of an alliance these partnerships:

“... You are using a common lounge. A common handling facility, actually, this works to reduce the price a bit. The greatest benefit of this strategy is the low cost. Something known as Open Skies started in the world. People are opening their air to each other. People are opening themselves as well as their companies. Making money has become the main thing now. Everyone is trying to make money, and for this reason, they are trying to share with each other information on low cost. In the past, everything was kept a secret. Not anymore. There's something called Google. Whatever you write, it gives you everything.”

There is a rivalry between the strategic airline alliances just as the one between airlines. Airlines under a given alliance can be found to make efforts on their own volition to enhance the position of the alliance. Participant 5 gave an example of his airline within the alliance to explain the efforts made by these operators to increase passenger potential:

“...As to our contribution...SkyTeam annually allocates a budget to about 10 airlines at the Istanbul station to be used in advertising, promotion and sales strategies. We use this budget to encourage our travel agents to inform our local passengers about the benefits of SkyTeam.

One of the most striking findings is that strategic airline alliances are not so much popular as before, and they need to have a more flexible structure to be able to survive. Another significant finding is that just as a member may make certain collaborations with others within the alliance, they can also make collaborations with others who are not part of the same alliance

in line with their interests; to this end, these airlines should have a special permission from the head of the alliance. One other finding of equal importance is that some airlines have started to question their membership in their strategic alliances. Participant 1 made the following remarks on this topic:

“Alliances emerged in the 90s, developed in the 2000s, but lost their efficiency after 2010. But they continue to exist. Alliances are like clubs. Their conditions were stricter before. There were certain requirements for membership to the alliances. Alliances used to have certain restrictions on collaborations with companies out of the alliance. I believe that the alliances will continue to exist, but with certain flexibilities in these matters.

If those restrictions continue to exist, airlines will decide to leave to make free agreements with whoever they please. For example, members of the Star Alliance have to get permission from the Star in order to enter into a JV or code sharing collaborations with an airline out of the alliance. The airlines may say...besides, they have to do the same in the case of frequent flyer program (FFP) mile points... The airlines may say, I have no advantage in remaining here, it does not give me any benefits. And it restricts my activities. Then the company will say, I will quit. As a matter of fact, airlines are questioning this today. They ask, what is the use of being here...”

Due to the severity of competition and the high costs in the airline sector, airlines who belong to an alliance are no longer satisfied with the constraints imposed on them by the alliances. To this end, some major airlines are trying new ways in order to remain sustainable and to increase their share in the sector. While some airlines have opted to form groups by combining forces with smaller airlines, others are forming their own alliances under a portfolio framework by taking shares from a few different airlines. Also noteworthy is the finding that airline with memberships in different alliances can coexist within these portfolios. There is a statement of participant 2 which echoes that of participant 1 on the change in strategic airline alliances and the state of affairs of the airline with regards to alliances:

“But then again, Etihad seems to have established its own alliance. Qatar is also working with British on Oneworld. In fact, it’s like they’ve divided the world markets among themselves here. Alitalia is in SkyTeam, Air Berlin in Oneworld... and Etihad has big shares of both of them. Etihad Groups is actually designed as a JV. This group (venture) also has Jet airways and 2-3 other airlines. It’s like it has formed its own portfolio. So, airlines can be in Oneworld and SkyTeam while taking part in other formations as well.”





Even though airlines are questioning the status of the alliances they are part of, and are looking for new ways of maintaining their sustainability, they are still reluctant to give up the opportunities of these alliances. Participant 1, in the following statement, emphasized the importance of the alliances to the airlines, even though they are questioning the current structure of alliances and seeking new ways of cooperation:

“It is absolutely favorable. Beneficial in every way. Cooperation needs to be improved. There is no such thing as growing alone in this sector. Even if permission has obtained through bilateral government agreements... you will often have to cooperate with the local airline. You have to be friends with the airlines of that country, because if you don't, they may not keep you in that market. They can easily kick you out of the market using their advantages and opportunities...it is definitely advantageous. You also need to pay attention to the points of disadvantaged. It must be profitable. It is vital that you conduct a cost-benefit analysis and see whether it is profitable... Airlines can only so far on their solo effort, after that they can only grow with cooperation.”

#### **4.3. The Direction of Airline JVs**

Participants P1 and P3 described the advantages that the JVs offered to their partners as follows:

“JVs are a little more than codeshares. Here, there are incomes to the business. Common price determination. These are advantageous for both airlines. Frequent flyer programs are also included in this practice. Our passengers who are members of the frequent flyer program still get the benefits even when they fly X airline.”

P3 outlined the advantages offered to the customers by the JVs that have emerged in the last period:

“... For example, there is a businessman. He wants to travel. All the three airlines, we ensure that both he and his company earn points. This is done through the frequent flyer program...”

In addition to the findings indicating the structural transformation that strategic airline alliances are undergoing, another noteworthy finding is related to the structural transformation experienced in JVs. Airlines do not practice JVs in the classical form anymore. Participant 2 gave an example of the classical and new form of JVs:



“Sun Express was founded by 50 percent partnership between Turkish Airlines and Lufthansa in order to increase the number of flights between Germany and Turkey, with a focus on vacation flights. But this is a classical JV between two competing firms in the same sector. So, they do not have to be rivals, similar to the example of DO and CO JV”. Previously, JVs were nothing but a cooperation between two companies in two different areas, whereas now they are practiced on regional or route basis.

As an example of modern JVs, he mentioned the ‘Kangaroo Ways’ venture between Emirates and Qantas, and the Atlantic ++ (A++) venture between Lufthansa, United Airlines, and Air Canada. Within the framework of these modern JVs, the airlines provide benefits to one another in the markets where they are strong. The benefits include flight networks and frequent flyer programs. Unlike other practices, in JVs, airlines may decide common prices. Another finding on JVs is that they are beyond code sharing and the relationships between the airlines are stronger than those within the framework of code sharing.”

Participant 2 explained the Atlantic ++ JV, one of the most important reflections of the latest developments in JVs:

“It’s also about the JVs that have resulted from the cooperation. On this issue, we have Atlantic ++ which has been around for some time. This is an agreement made among 5 airlines including United, Air Canada, Austrian Airlines, Swiss Airlines and Lufthansa Airlines which is in the Lufthansa Group companies. It is the establishment of a joint flight network of flights from Europe, North America, Middle East and Africa that fly over the Atlantic. For instance, if Lufthansa is flying from Washington to Frankfurt, United doesn’t schedule a flight there. It could, for instance, schedule one between Washington and Dusseldorf. As a result, the main objective here is to reduce costs and provide the most efficient flight...”

Participant 1 explained that these new practices arising from JVs can be put into practice only with specific permits from the competition commission:

“...These are issues that are contrary to competition law. But exemptions may be obtained from the competition commission. This is what we call anti-trust immunity, meaning that a cooperation between two airlines normally mention pricing. Two airlines cannot meet and determine their tariffs because this goes against the competition law. Even two companies that produce the same product cannot come together and say, I am selling this product at 2, you do 5. No such thing. Cannot happen. It’s against the competition. But it could be done in this

type of cooperation, by taking leave from the competition authorities of the countries involved. That's why the competition authority conditions do not have issues with JVs.

## 5. CONCLUSIONS

This study focused on the transformation process involving strategic airline alliances and airline JVs and was conducted through semi-structured interviews with traditional airline executives. The results obtained in this context are limited to responses of the participants and the author's comments. Also, since the study was conducted within the context of qualitative research, generalization cannot be made on the results of the study. With this limitation, the conclusions of this study and some recommendations are presented in this section.

The perception of airlines on competition and cooperation is highly positive given that they operate in a sector so expensive with an especially intensively competitive international markets (routes). While the businesses view competition as necessary for their development, they see their cooperation as necessary for the reduction of costs. It has become clear that in the determination of their form of competition, airlines are affected by the number of related, and even competing businesses.

The most significant conclusion of the study is that member airlines are questioning the validity of strategic airline alliances. The airline alliances could not prevent their members from cooperating with members of other alliances or other major airlines that are not members of any airline alliances. In relation to this, Dennis (2005) also claims that the level of integration within many airline alliances is not perfect and airlines in the same alliance do not pay regard to their strategic partners.

The strategic alliances that are being questioned by member airlines still retain their significance. Member airlines, however, can form JVs that benefit them with other airlines in smaller groups based on route or region. The place of traditional JVs like Sun Express (It was established in 1990 as 50% -50% in the partnership of Turkish Airlines and Lufthansa Airlines) served the all over the country market have been taken by new JVs like Kangaroo Ways, Atlantic ++ and Transatlantic which are route or region based. Airlines have established joint ventures which are more flexible than alliances, with airlines that are not member of their strategic airline alliances. The Kangaroo Ways joint venture between Qantas, a member of the One World alliance, and Emirates which is not a member of any strategic airline alliance, is an important example.



Institutional sustainability is the most important agenda item for business managers in competition intensive sectors. The right value-creating strategies also hold critical importance in this context. Businesses can achieve their corporate objectives through the establishment of the right strategy, timely decision-making and efficient use of resources. In order to ensure their sustainability and the sustainability of the sector, airlines also overcome some issues arising from sector-specific competition by obtaining permission from the competition authorities. In this connection, the study demonstrated the trend in the employment of the strategic airline alliances and airline JVs. The aviation industry is a sector that possesses strategic importance internationally and country wise, is spontaneously influenced by the world agenda and economic cycle, and has costs that are already high but can still rise further. For this reason, the two forms of cooperation employed by the airlines vary according to the period the business is going through.

Finally, it has emerged that strategic airline alliances still remain important for traditional airlines as they facilitate access to resources by according them legitimacy. However, the start of questioning by member airlines calls for the alliance administrations to give up their rigid positions and have a more flexible attitude towards their members' expectations. Otherwise, it is expected that airline JVs will take the place of strategic alliances completely in the future. In addition, it is envisaged that airline JVs will become widespread in the years to come, in a more flexible structure than the alliances, in forms that can be shaped according to the needs of enterprises, and which we can call modern. It is anticipated that the findings and interpretations of this study will contribute to the aviation management literature and to airline managers. It is also expected to carry a supporting role for studies on decision-making, competition and cooperation strategies.

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