IBN HALDUN UNIVERSITY
SCHOOL OF GRADUATE STUDIES
AIR TRANSPORT MANAGEMENT

MASTER'S THESIS

EXPLORING AIRLINE JOINT VENTURE, NEGATIVE AND POSITIVE EFFECTS OF AIRLINE JOINT VENTURE BETWEEN SMALL AND BIG AIRLINE COMPANIES

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ISTANBUL, 2025

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by
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ACADEMIC HONESTY ATTESTATION

I hereby declare that all information in this document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results that are not original to this work.

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ÖZ

AIRLINE JOINT VENTURE, KÜÇÜK VE BÜYÜK HAVAYOLLARI ARASINDA YAPILAN JOINT VENTURE ANLAŞMASININ NEGATİF VE POZİTİF ETKİLERİ

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Bu çalışma, havayolu sektöründe büyük ve küçük ölçekli şirketler arasında kurulan *Airline Joint Venture* (AJV) iş birliklerinin olumlu ve olumsuz etkilerini analiz etmeyi amaçlamaktadır. Havayolu ortak girişimleri, operasyonel verimliliği artırmak, yeni pazarlara erişim sağlamak ve maliyetleri paylaşmak gibi stratejik faydalar sunarken; özellikle küçük ölçekli şirketler açısından bağımlılık riski, marka değerinin zedelenmesi ve stratejik özerkliğin kaybı gibi önemli dezavantajlar da yaratabilmektedir. Araştırmada, ortak girişimlerin büyük havayolu şirketlerine sunduğu ölçek ekonomileri ve rekabet avantajları ile küçük havayolu şirketlerinin karşılaştığı güç asimetrileri detaylı bir şekilde ele alınmıştır. Çalışma, mevcut literatür taraması, sektör raporları ve örnek olay analizlerine dayanmakta olup, hukuki ve düzenleyici süreçler kapsam dışında bırakılmıştır. Ayrıca, araştırma ağırlıklı olarak Kuzey Amerika, Avrupa ve Asya bölgelerindeki örneklere odaklanmakta ve yeni gelişen pazarlar sınırlı ölçüde incelenmektedir. Elde edilen bulgular, havayolu sektöründe stratejik ortaklıkların doğru planlandığında önemli fırsatlar yaratabileceğini, ancak ortaklıkların taraflar arasında dengeli yapılandırılmadığı durumlarda özellikle küçük havayolu şirketleri için ciddi yapısal sorunlara yol açabileceğini göstermektedir.

Anahtar Kelimeler: Büyük Havayolu Şirketleri, Havayolu Ortak Girişimleri, Küçük Havayolu Şirketleri, Ortaklık Riskleri, Ölçek Ekonomileri, Stratejik İşbirlikleri.

ABSTRACT

AIRLINE JOINT VENTURE, NEGATIVE AND POSITIVE EFFECTS OF AIRLINE JOINT VENTURE BETWEEN SMALL AND BIG AIRLINE COMPANIES

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This study analyzes the positive and negative effects of Airline Joint Ventures (AJVs) established between large and small airline companies. While airline joint ventures offer strategic benefits such as improving operational efficiency, enabling access to new markets, and sharing costs, they can also create significant disadvantages, especially for smaller airlines, including dependency risks, loss of brand identity, and reduction of strategic autonomy. The study examines in detail the economies of scale and competitive advantages gained by large airlines through joint ventures and the power asymmetries faced by smaller partners. The research is based on an extensive review of the existing literature, industry reports, and case studies, excluding legal and regulatory processes from its scope. Additionally, the study primarily focuses on examples from North America, Europe, and Asia, with limited coverage of emerging markets. The findings reveal that while strategic partnerships in the airline industry can create substantial opportunities when properly structured, imbalanced alliances can lead to severe structural problems, particularly for smaller airline companies.

Keywords: Airline Joint Ventures, Competitive Advantage, Large Airline Companies, Partnership Risks, Small Airline Companies, Strategic Partnerships.

DEDICATION

It is dedicated to my advisor, Prof. Dr. Selim Zaim, and all my academic mentors whose insights and encouragement have been invaluable in my pursuit of knowledge, and of course, to my family, whose unwavering support and love have been the foundation of my achievements.

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İSTANBUL, 2025

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LIST OF SYMBOLS AND ABBREVIATIONS

AJV	Airline Joint Venture
ASAS	Airline Service Agreement
ECAC	European Civil Aviation Conference
IATA	International Air Transport Association
ICAO	International Civil Aviation Organisation
KLM	Royal Dutch Airlines
O	Opportunities
S	Strength
SARS	Severe Acute Respiratory Syndrome
SAS	Scandinavian Airlines
T	Threats
THY	Turkish Airlines
W	Weakness

CHAPTER I

INTRODUCTION

The liberalization movements that started internationally after the 1980s quickly changed the aviation sector's structure. The decrease in the pressure of government intervention on the sector, the softening of the strict rules on entry into the sector, have led to an increase in the number of newly established airline companies and the intensification of competition with different business models that have emerged. Adapting to the competitive environment is becoming increasingly complex in the sector, which operates with a low profit margin. Airline companies that work to reduce their costs, ensure their continuity, increase their revenues, increase the number of passengers, and increase occupancy rates by opening up to new markets make many strategic moves to achieve these. Airline companies with different competitive advantages often establish strategic alliances as one of these moves (Gillen & Hinsch, 2001).

The authorities of many countries authorize airline companies to offer services to different service markets at varying standards, and the airline companies cooperate to gain various advantages. Within the scope of this cooperation, airlines create codeshare flights, joint frequent flyer programs, marketing agreements, partnership agreements, block booking agreements, commercial agreements, proration agreements, merger agreements, and fusion agreements. Star Alliance, One World, and Sky Team are the most crucial global airline collaborations.

Many airline operators benefit from this strategic cooperation method, which has been going on for many years. However, observers have seen in recent years that airline companies, which aim to increase revenues by controlling costs in all areas of the aviation system, have focused on the basic building blocks of this system. Undoubtedly, the most important stakeholder of the global aviation system is airports. In parallel with the economic, social, cultural, and demographic effects of the province

where the airports are located, it creates new market opportunities for the airline business by providing potential to the airline operators and creates different seasonal jumps. In addition, the fact that airports create various costs for airline operators and provide mandatory services for airline businesses makes airports a central and vital position in the system. Recognizing this situation, airline companies have turned to creating strategic cooperation with airport operators.

The main task of airports is to provide areas where airline operators can land and take off safely. Airports are businesses that maintain social and commercial spaces that meet the various needs of passengers arriving at the airport for a flight. In addition, Airports provide logistics services required for aircraft, such as fuel and maintenance (Albers et al., 2005). We understood from the definition that airports are the suppliers of airline operators, and the airline is the buyer of airports. The airport-airline relationship, which has been going on for many years, has moved from the buyer-supplier relationship to a different dimension today. The sectoral structure, which has changed since the liberalization movements in aviation were effective, has transformed from a relationship open to market intervention, such as buyer-supplier, for daily operations, to a long-term vertical relationship in which airport and airline operators provide mutual benefits. In addition to the effects of the liberalization movement, the changing and commercializing structure of airports, the increasing importance of non-aviation revenues in airport financing with the effect of commercialization, the emergence of a low-cost transportation business model, and the tendency of cost-oriented enterprises to the hub & spoke system have been practical in the establishment of these relations.

The liberalization movements in the USA in 1978 made airline companies more effective in the international market by revising their flight network structures. With this effect, traditional carriers and network carriers have turned to the hub & spoke system, which allows them to collect passengers at the central airports they have determined and distribute them with passengers from these airports to other destinations. This situation has led to the importance of the airport, which acts as a collection and distribution center, and the necessity of establishing a relationship with the airport for airline operation (Barbot, 2009).

The facilitation of entry into the sector after liberalization has led to the establishment of airline companies that apply different business models. One of these business models is the low-cost transportation business model. As a cost-reducing strategy, airlines question secondary airports. We call airports far from central airports, located far from city centers, and relatively difficult to reach, secondary airports. Lower fees per passenger, landing, and accommodation at these airports compared with central airports lead airline companies that provide low-cost transportation to choose them. The fact that low-cost carriers provide income to these airports and that more passengers use this airport reveals a mutually beneficial relationship. This can form the basis of a long-term cooperation (Barbot, 2006).

The development of airports shows a trend toward privatization in public airports. Privatized airports are increasing their revenues to keep their financial structures strong. Initially, airports increased their revenues from aviation fees in capacity ratios, but later focused on non-aviation revenues. In addition to rental income from areas such as cafes, restaurants, beauty centers, etc., at the airport, there is a situation of getting a share of the income according to the number of passengers using it. In this case, the way to increase non-aviation revenues is to increase the number of passengers, and the way to increase the number of passengers is to increase the flight networks of airline operators flying from the airport. This situation leads to cooperation between airport and airline operators (Graham, 2012).

The basis of the establishment of cooperation is to achieve mutual benefit. Businesses describe collaborations as strategies that help them achieve various goals. Businesses divide collaborations into vertical and horizontal types. This distinction is determined according to the branch to which the production activity is affiliated. Enterprises carrying out the same production activities establish horizontal cooperation, and Enterprises related to each other but carrying out different production activities engage in vertical cooperation. While airport operators offer various services to aircraft and passengers, airline operators transport passengers from one destination to another. For this reason, airport-airline collaborations establish vertical cooperation because they carry out different production activities related to each other (Albers et al., 2005).

Undoubtedly, the cooperation established between airport and airline operators provides various advantages for the airport and the airline. For example, the most crucial way to increase non-aviation revenues, which have increased in importance with the effect of commercialization, especially in privatized airports, is to increase the number of passengers. However, there is no way for airline operators to increase the number of passengers without changing the flight frequency and the number of destinations. In the opposite relationship, the airline operator, who will organize the destination and frequency network to increase the number of passengers, depends on the airport operator in terms of various capacity constraints, such as apron, gate, check-in counter, terminal services, and different cost constraints, such as air traffic fees, accommodation fees, and fees per passenger. We consider the necessity of cooperation, which arises even when we examine it only regarding passenger numbers, a strategy that contributes positively to airline and airport operations.

Airline companies, which are in the position of a direct service buyer and whose relationship with the airport is mandatory under certain conditions, aim to increase their operating performance with the advantages they have obtained, mainly by providing strategic collaborations with the airports they have chosen as the center of their flights.

Researchers examine business performance in two ways: financial performance (such as profitability, expenses, stock prices, etc.) and non-financial performance (such as competition, loyalty, customer satisfaction, etc.). When researchers consider the airline industry's performance, they evaluate it as financial and operational. Successes in operational performance also have an impact on the economic performance of the airline business.

1.1. Subject and Scope of the Study

Airline companies, especially those implementing the same business model and strategy, have similar service mixes and marketing throughout the flight. Airports' services enable businesses to achieve competitive superiority. The cooperation established by airline operators with the airport to create a competitive advantage against their competitors is strategically important (Albers et al., 2005).

The airline operator cooperates with the airport to gain significant advantages over its competitors: access to flights at that airport, cheaper services, better terminal capacity utilization, and more favorable slot allocations for higher flight density.

1.2. Purpose of the Study

The primary purpose of this study is to analyze the concept of airline joint ventures (AJVs) and to evaluate their positive and negative effects on small and large airline companies participating in such partnerships. Specifically, this research explores how joint ventures involving close collaboration between airlines influence operational efficiency, network expansion, market power, and competitive dynamics. By investigating the motivations behind forming airline joint ventures and their implications for companies of different sizes, the study intends to provide a balanced and nuanced understanding of the outcomes of these alliances. Additionally, the research seeks to identify the strategic benefits that large airlines derive from joint ventures, such as access to new markets and cost-sharing opportunities, while examining potential risks for small airlines, including dependency, brand dilution, and loss of autonomy. This study will contribute to the broader academic and managerial discussion about joint ventures' strategic value and pitfalls in the highly competitive global airline industry through a comprehensive review of previous studies, case examples, and industry data.

1.3. Scope and Limitations of the Study

This study focuses on airline joint ventures formed between large and small airline companies across the global aviation industry. The scope includes examining the operational, financial, and strategic effects of such collaborations, with particular attention to how the relative size of the partnering airlines shapes the outcomes of the joint ventures. While the research addresses both positive aspects—market access, resource sharing, and network synergies—and negative aspects—such as market dependence, unequal bargaining power, and strategic misalignment—it primarily concentrates on the economic and strategic implications rather than legal or regulatory issues in depth.

We can limit the study in several ways. First, it mainly relies on secondary data sources such as industry reports, academic literature, and case studies; therefore, real-time empirical data collection (e.g., interviews with airline executives) is outside the study's scope. Second, although the research attempts to cover diverse global regions, it draws most examples from North America, Europe, and Asia, where joint ventures are more prevalent and well-documented. Third, the analysis does not deeply investigate the regulatory approval processes and antitrust considerations that often influence joint venture structures, focusing instead on the strategic and operational impacts from a corporate management perspective. Lastly, the findings may not be fully generalizable to very small or emerging market airlines whose dynamics differ significantly from those of established players.

CHAPTER II

STRATEGIC COOPERATION

2.1. Theoretical and Conceptual Framework

Description of the concept of cooperation, which the Turkish Language Association (TDK) defines as "a working partnership formed by those whose goals and interests are the same", often in the business literature by highlighting its different features. For businesses, collaboration is "the ability of two or more firms to work together commonly towards their own goals" (Bengtsson & Kock, 1999). On the other hand, Moller and Wilson (1988) defined the concept of cooperation as the means by which the buyer and seller enter into a cooperative and, therefore, a permanent relationship.

In his study, Chesnais (1988) states that collaborations can be seen as creating a new business with the capital produced by two or more companies coming together. According to the studies in the literature on cooperation, cooperation consists of four basic dimensions. These dimensions, on the other hand, encourage collaboration between businesses.

It is to be define as information sharing, shared decision-making, flexibility, and adaptation (Heide & Miner, 1992). A cooperative agreement arises as a formal, long-term alliance between companies that combines certain aspects of their activities but does not result in a merger (Porter & Fuller, 1986).

Gulati (1988) emphasizes that cooperating is a strategic decision, and there are two reasons for this. The first of these reasons is the importance of making decisions in choosing a suitable partner, reaching an agreement, and creating an appropriate form for the agreement. The second reason is the functioning and results of relations between cooperation partners. In line with the reasons stated, many studies in the literature have focused on the strategic aspect of collaborations and revealed the

concept of "strategic cooperation". Gulati described cooperation as voluntary agreements between independent firms to develop and commercialize new products, technologies, or services.

Strategic cooperation is the collaborative activities enterprises carry out for a relatively long time in line with their strategic goals to achieve them (Parkhe, 1991). Tsang (1988) defined strategic cooperation as a long-term relationship between enterprises seeking mutual economic benefit. Strategic cooperation is the combination of the existing opportunities of the enterprises with the opportunities of one or more enterprises to achieve their goals, as well as the voluntary exchange or sharing of business-specific resources (Vyas & Shelburn, 1995; Lin J., 2006).

According to the national literature, cooperation is an agreement in similar business lines that will voluntarily contribute to production and marketing for enterprises to gain an advantage in the competitive environment (Kocel, 2018). In the literature, it is stated that strategic collaborations come together to use the resources of the enterprises together, that the cooperation can be considered as an initiative, and that the enterprises act together to achieve common goals (Celik, 1999; Ekrem, 2009; Hussein & Khosrow, 2008).

In summary, strategic cooperation to be define as using resources, joint plans, and activities to gain superiority over competitors by achieving economic and marketing benefits. The changing economy and market structure have caused businesses to turn to cooperative activities. For this reason, the current literature intensively deals with different aspects of strategic cooperation.

2.2. Strategic Cooperation in Business

The issue of choosing the partner or partners with whom the enterprises will cooperate has formed the basis of the studies on cooperation. In collaborations, the complementarity of the enterprises and the interaction between the partners have been the features sought (Gugler,1992). Bensimon offers four recommendations to cooperating businesses (Bensimon, 1999).

- Assimilating the competencies of the partner,
- Thinking of the partner as today's ally and tomorrow's competitor, sharing power and resources, sharing knowledge as much as necessary, and structuring cooperation carefully.

Businesses that cooperate strategically should share power with the enterprises they will cooperate with by mutually benefiting from resources. However, we should prioritize the interests of the company in information sharing. Collaborations must align with business goals and objectives (Bensimon, 1999). In the relevant literature, researchers also investigate the reasons for the cooperation of enterprises. The emergence of a cooperation strategy can be based on business-specific reasons as well as reasons that affect all sectors.

In the globalizing world, in line with the efforts made to adapt to the developing technology, the increase in diversified products and services, and the changes in consumer habits lead businesses to strategic cooperation to put them in an advantageous position against their competitors (Fernando et al., 2011, p. 85).

Apart from making a profit, one of the primary purposes of the enterprises is to ensure the continuity of the business. In this context, it is necessary to reduce threats to the company and create opportunities. Businesses resort to strategic collaborations to gain market opportunities by eliminating competitors' threats (Bettinelli et al., 2016, p. 88).

With the development of technology, enterprises' costs in the economic system are increasing considerably. However, to increase the enterprises' profitability, they must reduce costs and increase their sales. Operators who want to create a competitive advantage by lowering costs prefer to develop strategic cooperation (Sompong et al., 2014, p. 519).

While resource problems that will enable businesses to fail against their competitors lead businesses to cooperation, strategic collaborations strengthen the business and ensure its growth by allowing mutual resource use (Hamel et al., 2003, p. 13).

Businesses want to open up to new national and international markets, share risks in new markets, protect their existing markets, and eliminate uncertainties, so they resort to strategic cooperation. It is known that businesses increase their financial value with strategic collaborations (Eren, 2013, p. 301). The increase in brand and financial value with strategic collaborations creates added value for the business in today's competitive conditions and a problematic economic system (Erdil et al., 2019, p. 169).

It is known that strategic collaborations may also emerge as a necessity when operating in some markets. The legal restrictions imposed by the countries, the market regulations, the competitive structure of the countries, and the conditions set to operate in international markets ensure that businesses need cooperation to fulfill the relevant restrictions. In this context, strategic collaborations can be a preferred way to overcome obstacles in market entry (Zamir et al., 2014, pp. 28-29).

Goals such as benefiting from economies of scale in global production, reducing increasing costs due to research and development activities, and providing easier product logistics encourage today's businesses to create strategic cooperation (Lin et al., 2009, p. 927).

Strategic alliances have increased dramatically over the past two decades, especially in high-tech industries, for many reasons and needs (Hagedoorn, 1993).

2.3. The Importance of Establishing Strategic Cooperation

Businesses can gain a competitive advantage over their competitors with the benefits they create in their resources and basic capabilities. However, from time to time, the problems businesses encounter in their resources and in activating their basic capabilities may cause this situation to affect firms adversely. Companies choose strategic collaborations to overcome their problems related to resources and core capabilities easily. In the collaborations created by the enterprises regarding their resources and basic capabilities, to obtain goods and services that they cannot develop from other businesses, to create additional value by bringing together additional resources and capabilities, and to learn new skills from competitors (Cengiz & Oktay, 2010, p. 50). It is essential for businesses to maintain and develop their own talents

and to learn and gain new skills for business continuity. Strategic collaborations for this problem create advantages for businesses.

Businesses that form strategic cooperation invest in their future with the advantages they have gained and guarantee business continuity. Collaborations can prepare the business for future processes more easily by adapting to changing market structures, global situations, and developing technology (Cakınberk, 2009, pp. 171-172; Fernando et al., 2011, p. 88).

Many businesses use strategic collaborations as a growth strategy. To eliminate the threats posed by the competition brought about by globalization to the existence of businesses, businesses have had to strengthen and grow continuously. Strategic collaborations give faster and safer results than other growth strategies, and the companies have revealed collaborations for this purpose in different sectors (Aydogan & Sensozlu, 2015, p. 59).

Porter (1990) has suggested that alliances are transitional rather than stable and rarely provide a sustainable competitive advantage. Hamel (1991), on the other hand, sees alliances as a learning contest in which the winner will eventually dominate the "partnership".

People see strategic collaborations as creating joint ventures, realizing joint projects, ownership partnerships, or producing goods and services. In such collaborations, exchanging personnel between enterprises or forming new project teams also provides advantages to the enterprise regarding human resources (Ulgen & Mirze, 2004, p. 72).

The fact that enterprises can operate freely in global markets reveals the necessity of large-scale production and the transportation of the products they produce. The difficulties and costs brought by the organization of logistics activities on a global scale may cause problems such as the inability of the enterprise to deliver on time, commitment problems, and a decrease in profit. It is known that strategic collaborations are also effective in strengthening the distribution channels of businesses and eliminating logistics problems. For this reason, strategic collaborations

have an important role in the logistics activities of enterprises (Verstrepen et al., 2009, p. 229).

Today, another factor that is as important as basic capabilities and financial status in ensuring business continuity is the business's corporate reputation, which expresses its value and position in the eyes of the consumer. Achieving a strong corporate reputation also ensures the economic strengthening of the business. Businesses can improve their corporate reputation by combining with a business with a high corporate reputation or with a business that is not strong, using the advantages of the two businesses coming together. Strategic collaborations strengthen a business's corporate reputation (Muammer & Oruc, 2010).

Some researchers have found that when two or more businesses engage in collaborative activities, they may collaborate to collaborate again. This situation enables businesses to gain various advantages by entering into long-term relationships with each other (Zollo et al., 2002).

2.4. Types of Strategic Cooperation

Cooperation is a verbal or written agreement between various companies to carry out an activity jointly, with specific objectives and a certain coordination and structure with which they will achieve them. Considering the different internal dynamics of businesses and the way they come together, it is seen that collaborations are formed in very different ways (Nohria & Garcia, 1991, p. 107).

Strategic collaborations are evolving into multiple strategic variants that one can classify in various ways that align with the enterprise's goals. These (Williamson, 1975);

- Independence and reorientation strategies in which the goal is to reduce uncertainty and dependence on the surrounding environment by using the associated companies' own resources and competitive advantages,
- Cooperation strategies aimed at temporarily reducing competition between competitors, involving agreements on a general scale or specific activities,

- Created to outsource a task, activity, or function to another representative or subcontracted business on behalf of the business instead of undertaking it itself linked relationships or agent linkage strategies resulting from the contract (Production subcontracting, partial manufacturing of components, private or selective co-production, temporary leasing of resources, concessions, licenses, intermediary authorizations, etc.)
- They are alliance agreements that seek to change the competitive environment or eliminate competition between representatives more or less indefinitely, creating a new competitive front against rivals. Alliances are a form of cooperation that involves more rigor, formality, and transparency.

Collaborations emerge when two or more businesses agree to meet on common ground. It is known that cooperation agreements can vary in line with different variables. When these variables are taken into account, collaborations (Bresser, 1988, pp. 377-379; Oliver, 1988, pp. 543-561);

- Cooperation according to economic objectives such as purchasing, selling, exporting, importing, etc.
- Cooperation as a function of intermediaries such as competitors, customers, suppliers, etc.
- Intra-sectoral or inter-sectoral cooperation according to the industry segment,
- One can classify it as cooperation between large, medium, and small enterprises according to the size of the affiliated enterprises.

In the study Barney (1996) conducted, Barney (1996) made a classification in three broad categories, focusing on the emergence of strategic alliances. These are (Hyder&Abraha, 2003, p. 18);

- *Unequal alliance*: the emergence of cooperation between enterprises through direct contracts, without entering into equity holdings or creating independent bodies. License agreements, distribution agreements, R&D collaborations, etc.

- *Alliance of shares*: One business receives shares from the other cooperative partner.

Cooperative contracts, etc.

- *Joint ventures*: When businesses form an independent company with the businesses they collaborate with.

Organizations preferred Joint ventures, which emerged separately from existing enterprises, to ensure that the enterprise used all the advantages of cooperation and that the disadvantages did not affect the enterprise.

In the literature, someone reduces various classifications focusing on different points of strategic collaborations to the basics: horizontal, vertical, and mixed. (Celik, 1999, p. 29). The following section provides detailed information about these collaborations.

2.4.1. Horizontal Collaborations

People call strategic collaborations between enterprises with similar activities in the same sector horizontal cooperation. The most common horizontal cooperation is that the enterprises that carry out research and development activities together produce a new product as a result of these activities and cooperate in the commercialization process of this product. In addition to the collaborations arising from R&D activities, they carry out horizontal collaborations to carry out logistics processes (Khemani & Waverman, 1997, p. 134).

In addition to the factors that cause businesses to resort to cooperation strategies, there are also some reasons why they prefer horizontal collaborations. At the beginning of these, the desire to benefit from economies of scale, overcome market entry barriers, reduce risk, and provide knowledge and talent transfer (Celik, 1999, p. 29; Flanagan, 1993, p. 12).

Bengtsson and Kock (1999) have classified horizontal cooperation, which can occur between competing and unrelated enterprises, into four types of horizontal relations,

each with a different degree of cooperation and competition: coexistence, cooperation, competition, and coopetition.

Cohabitation refers to a relationship that does not involve any economic exchange and in which someone independently envisages the goals of enterprises. Cooperation arises informally. Interaction between businesses is in the form of information and social sharing.

We can see it in large and small businesses within the same sector. *Cooperation is* the close ties between businesses that set and pursue common goals. Businesses are competitors with each other. However, initiating relationships on formal or informal trust establishes relationships that provide information, resource sharing, and economic connections. Competing enterprises that enter into cooperation need a contract to form a strategic alliance. Adjusting dependency and power through contracts prevents conflicts between competitors.

Competition is the relationship that arises with an action-response model because businesses rely on the same or comparable suppliers and target the same group of customers. A competitive relationship is the effect of a process initiated by one of the competitors on other competitors. In a competitive relationship that is not based on official norms, businesses create power and commitment according to their position in their sector.

Competition and cooperation are horizontal collaborations in which competition and cooperation arise together. It is beneficial if cooperation for non-essential activities occurs, while competition for essential activities remains unchanged. This relationship encompasses both non-economic and economic relations. While there is no conflict of interest in the issues in which there is cooperation, there are conflicts in the issues in which there is competition. When cooperating, they indicate dependency in a formal agreement or base it on trust. When competing, dependency is related to the player's power and position in the business network; it is more evenly distributed.

Due to the increasing competitive pressure with globalization, the speed of technological progress, and the dynamic structure of the markets, businesses are striving to gain a competitive advantage.

Something forces businesses to reorganize their business processes to react quickly and cost-effectively to rapidly changing market demands (Zigmas & Benas, 2007, p. 81; Leitner et al., 2011, p. 333). The fact that logistics costs constitute a significant part of the total costs of enterprises and the importance of logistics activities in terms of both protection of the supply chain and access to the market have led to the emergence of collaborations in the field of logistics. These collaborations are gaining momentum today. Considers that logistics enterprise collaboration horizontal (Engelhardt-Nowitzki & Oberhofer, 2006, pp. 40-45). The European Union (EU) defines coordinated practices between businesses operating at the same market or logistics chain levels as horizontal cooperation. Businesses forming horizontal collaborations are competing or unrelated suppliers, manufacturers, retailers, buyers, and logistics service providers sharing information, facilities, or resources to reduce costs and improve service (Leitner et al., 2011).

Horizontal collaborations occur between competitors in many sectors, especially logistics, aviation, automobile, and finance. These collaborations offer advantages in protecting competition, sharing information and resources with horizontal collaborations, and preventing small businesses from disappearing.

2.4.2. Vertical Collaborations

We call these collaborations between businesses operating from producing a good or service to its presentation to the final vertical consumer strategic collaborations. In companies' preference for vertical cooperation, it is essential to manage the supply chain and gain advantages in terms of marketing (Khemani & Waverman, 1997, p. 135).

In the literature on vertical collaboration, someone sees that collaboration and supply chain management intersect. Someone describes collaborations of businesses that are suppliers of each other or have a seller-customer relationship between them as vertical

collaborations. Businesses that do not want to have problems in the procurement process try to strengthen their relations by reaching an agreement with their suppliers. Supply chain management is "the set of approaches used to efficiently integrate suppliers, manufacturers, warehouses, and stores to produce and distribute goods in the right quantities, in the right places, and at the right time." Vertical strategic collaborations created by businesses facilitate supply chain management. Businesses are known to resort to strategic cooperation to minimize costs and avoid waste while providing supply chain management. Beneficial collaborations between different levels of the supply chain are essential for the smooth and efficient continuation of processes (Levi et al., 2000, pp. 40-44).

Vertical strategic collaborations, that is, collaborative relations between buyers and sellers, are collaborations built on the distribution of activities and resources between actors in a supply chain and generally involve economic exchange, which are more formal and specific than horizontal collaborations. Vertical strategic collaborations are more likely and easier to form than horizontal collaborations (Easton & Araujo, 1992, pp. 62-66).

In recent years, it has been seen that businesses that want to create a competitive advantage have turned to cooperation, and therefore, the interest in vertical collaborations has increased. While increasing buyers and sellers in the global economy impacts competition, businesses should regulate the procurement process, reduce costs, gain market advantage, and prevent possible problems by resorting to vertical cooperation as a strategic method. Vertical strategic collaborations can create situations such as incorporating suppliers into the business in long-term relationships (Vettas, 2010, p. 848).

A definition based on economic concepts to comprehend vertical cooperation better. People say that businesses selling substitute goods and services can form horizontal collaborations. In contrast, companies that sell complementary goods and services can form vertical collaboration. In the vertical collaboration among different supply chain stages, it is a common goal to deliver the service to the end consumer (Vettas, 2010, pp. 849-850). The fact that vertical collaborations do not occur between competitors indicates that cooperation will not directly harm competition between businesses.

However, vertical collaborations can harm the horizontal relationships of companies in some markets. For this reason, it is possible to discuss the indirect adverse effects of vertical collaborations on competition (Vettas, 2010, pp. 850- 851).

We see vertical collaborations in two ways: forward and backward. There is a forward vertical cooperation between enterprises dealing with raw materials' production and procurement process, and enterprises producing finished products. In the same way, people consider the collaborations between the enterprises that produce products and the enterprises that carry out the marketing processes to be forward-looking. Carried out in the opposite direction of forward vertical collaborations, for example, the cooperation of the marketing enterprise with the product-producing enterprise, or the raw material supplier of the product-producing enterprise, we call backward vertical cooperation. While forward vertical collaborations are preferable to control the raw material source, backward vertical collaborations are selectable in terms of the control and management rights of the producers over the suppliers (Ulucay, 1999, p. 61)

Today, the industry knows that people see the most successful vertical collaborations in production-oriented enterprises. As the main sectors, the textile, chemical, and metallurgical sectors apply for vertical cooperation (Kizilyalcin, 2005, p. 50). In recent years, vertical collaborations have formed in the logistics and aviation sectors as a service sector and have yielded successful results.

2.4.3. Conglomerate Collaborations

Mixed strategic cooperation is a type of strategic cooperation between enterprises in different sectors whose fields of activity are unrelated (Celik, 1999, pp. 29-30). We consider strategic collaborations between enterprises that do not cooperate horizontally and vertically, and are not in different fields of activity and supply chains, to reduce sectoral risks and for financial investment purposes, mixed cooperation. One can show the growth of businesses by investing in other sectors as an example of mixed cooperation. (Sabuncuoglu & Tokol, 1997, p. 107).

The basis of the emergence of hybrid collaborations is the desire of businesses to operate in sectors where they do not have knowledge and experience. Businesses that

want to shift their investments to new areas to increase their growth and profitability prefer mixed collaborations. Mixed collaborations are also a dependent diversification strategy (Ulgen & Mirze, 2004, p. 315). While we can see hybrid collaborations in every industry, they are essential in terms of enabling mergers and acquisitions to take place. We see mixed collaborations in three types: product expansion, market expansion, and mixed enterprises (Aydın, 1988).

Product expansion is a hybrid collaboration in which businesses that produce different products develop a new product, ensuring that both enterprises benefit from the advantages of the two enterprises and the production resources they have in the new product. M*arket diffusion is a* hybrid collaboration in which businesses come together to offer the same or similar products to different markets. Through the cooperation of enterprises, it aims to open up to new markets and reduce the risk of new markets.

Mixed enterprises are a cooperation between unrelated businesses in terms of product or market, aiming to enter a new sector or make a financial investment.

2.5. Strategic Cooperation in the Aviation Sector

The curiosity about the effect of the regulations on the aviation sector on competition in the 1940s led to a tendency towards competition in the aviation sector in the academic studies conducted in the 1950s. While the debate about regulation continued even in the 1960s, in the early 1970s, some academics argued that unregulated markets were better for the aviation industry, citing evidence of the performance of aviation enterprises in California and the Texas region. In 1978, deregulation took place in domestic transportation in the USA, and the industry abolished the regulations that were effective on competition. (Levine, 1986, pp. 393-399).

After the 1980s, the liberalization movements, which started to show their effects first in Europe and then in other continents, supported the idea that the sector without regulations would improve productivity. However, while liberalization explains the positive impact of the increase in competition, deviations from competition have occurred differently. Someone has seen these deviations in mergers, vertical

collaborations, center dominance, frequent flyer programs, and bankruptcy of new businesses (Levine, 1986, p. 408).

Due to increasing competition, airport slot problems, high costs, and combining flights on the same routes, aviation enterprises have started creating horizontal and vertical integrations with contracts between them (Levine, 1986, pp. 409-411).

By discussing the purpose for which airline companies should establish cooperation, the market has conducted different studies in this direction, and companies have begun to believe that collaborations covering some issues will be beneficial. These issues (Deus, 1989, p. 5758);

- Airline integration and joint operation,
- Harmonization of road network and programs,
- Use and standardization of light equipment,
- Consolidation of engineering and maintenance facilities,
- Developing adequate and reliable civil aviation communication for air traffic services,
- Partnership of civil aviation legislation and regulations,
- Future purchase of flight and ground equipment, indicated as.

The industry much more liberally regulates charter airline operators. While the liberalization movements first implemented in Europe did not mention charter operations, the third package eliminated the regulatory distinction between charter and scheduled flights. As a result of operating in a common market in air transport, charter carriers have entered the planned market and developed new relationships with major airlines. In a highly competitive market, charter carriers have adopted various strategies, including vertical and horizontal integration, product development, and cost control, to exist in the air transport industry (Lobbenberg, 1995, p. 67). The cooperation of charter airlines with traditional air carriers has revealed the advantages of cooperation and interaction in aviation enterprises, and has increased collaboration.

At the beginning of the liberalization process, European airlines tried to protect the aviation market with intra-European cooperation. Then they started to cooperate with

businesses operating in the US market by making strategic changes to create an advantage in long-haul flights. An example is the cooperation between British Airways and American Airlines (Staniland, 1996, pp. 1-2).

With the effects of liberalization in the global airline industry worldwide, especially in Europe and the USA, there has been a significant increase in cooperation between airline companies. The study by Rhoades and Lush (1997) stated that there were 389 collaborations between 1995 and 1996, showing a 19% increase in collaborations in just one year. These collaborations are simple codeshare agreements, equity swaps, management agreements, and joint governance arrangements. Rhoades & Lush (1997, p. 109) have emphasized that more and more airline operators collaborate yearly. Although there is a high rate of cooperation in the aviation sector, the rate of successful continuation of these collaborations is low. Doorley (1993) found that 60% of collaborations in all sectors did not last more than 4 years, and those that continued for more than 10 years were about 20%. Although collaborations in all sectors, including aviation, are highly preferred, we can consider short-term ones. The biggest reason for the short-term nature of the collaborations is that the collaborations result in mergers and acquisitions after a short time. However, this does not apply to aviation enterprises. The high market capitalization of aviation businesses makes mergers and acquisitions rare. At the same time, government restrictions try to prevent mergers and acquisitions (Rhoades & Lush, 1997, pp. 109-110).

Bennett (1997) mentioned that airline operators have suffered significant financial losses due to reduced loads, idle capacity, and falling ticket prices that the aviation industry has experienced. Economic pressures, deregulation, and privatization put pressure on airline operators and encouraged them to cooperate (Bennett, 1997, p. 213).

Strategic cooperation within the airline industry encompasses issues such as the use of shared airport facilities (check-in, lounges, etc.), creating improved connections (synchronous programs), reciprocity in frequent flyer programs, freight coordination, and negotiating agreements (codeshare and block selling) (Bennett, 1997, p. 214).

By the 2000s, airline collaborations had become very common in the aviation sector, and researchers had carried out many academic studies on the advantages and protection of these collaborations. In the early 2000s, apart from the cooperation between airlines, when collaborations began between airports and between airports and airline companies in the aviation sector, academic studies turned their direction to these collaborations. While researchers have examined the horizontal collaborations between airline and airport operators in detail in the literature, the collaborations between airports and airline companies have attracted attention from researchers, considering them relatively marginal (Albers et al., 2005, p. 49).

2.6. Reasons for Aviation Enterprises to Establish Strategic Cooperation

There are basically five reasons why businesses prefer collaborations. These: benefiting from economies of scale and learning, taking advantage of the advantages of other companies, reducing risk by sharing, shaping the market, and reaching the market quickly (Porter & Fuller, 1986; Pfeffer & Nowak, 1976; Faulkner, 1995). In addition to these five reasons, someone can show another reason to ensure the business's survival in an intensely competitive environment. Aviation is a sector where people intensely see collaborations as an area that its unique structure, sectoral dynamics, and concepts such as liberalization, privatization, and competition that affect the sector influence. The reasons for establishing strategic cooperation of aviation enterprises are based on the main reasons valid for all enterprises and additional reasons arising from the sector's characteristics.

In forming strategic collaborations of aviation enterprises, there are generic reasons such as benefiting from economies of scale and learning, benefiting from the advantages of other businesses, reducing risk by sharing, shaping the market, speed to market, and survival.

Airlines can use economies of scale and learning by expanding their marketable networks through franchising, code sharing, block spacing, and stakes in other airlines (Hanlon, 1996).

Taking advantage of other businesses, the regulatory framework of bilateral lines and capacity constraints, combined with the initial costs of operating on a new route, collaborations can provide relatively easy access to a route. Capacity problems at many airports and the density of air traffic cause problems in air traffic and airport slots. With the additional obstacle brought about by grandfather rights, it becomes difficult for airline operators to access the market. Collaborating with another airline also reduces costs in procuring aircraft to operate on a route (Harrigan, 1992).

Mitigating risk by sharing is known to be a high-risk strategy for starting an operation on a new route. Especially if a high-capacity operation is desired, the risk is even greater. On the targeted route, price wars and predatory pricing can arise with the efforts of established airlines to protect their markets. Cooperation with an airline that already operates a route reduces the risk in such a case. At the same time, one ensures that one exposes the airline to less competition in terms of cooperating airlines. Collaboration can help airlines reduce costs and promote profitability. Given the airline industry's lack of profits in recent years, it is important to manage the high-risk nature of this industry well. The best example of cooperation in terms of risk is with Boeing.

It is a joint venture between Airbus and Airbus to develop a super-jumbo capable of carrying up to 1000 passengers (Bennett, 1997).

To shape the market, the competition on the routes where many different airline operators operate simultaneously causes airline companies to fly with idle capacity, increase costs, and decrease profitability. By cooperating, airlines can reduce competition, eliminate the capacity problem, and profit more from the route (Williams, 1993).

Two crucial events affect the speed of reaching the market and the aviation industry. The first of these, deregulation, has led to intense competition in the aviation market and removed the barriers for businesses to reach the market. With the increase in privatization, the second important event, airline companies supported by governments have faced competition from different angles. Government intervention and reduced subsidies have pushed traditional carriers to cooperate with private airlines. The

aviation industry has observed that airlines tend to cooperate with international private airline operators and airports to reach markets in different countries. (Faulkner, 1995; Bennett, 1997).

In the case of survival, bankruptcies and losses in the aviation sector, it seems that aviation enterprises turn to cooperation to maintain their existence, and businesses that establish cooperation can continue their existence in the industry. As collaborations multiply, complexity intensifies and nationalism weakens (Bennett, 1997).

The unique, complex, and challenging structure of the aviation industry and the sector's unique characteristics push aviation enterprises to cooperate. The reasons arising from sectoral traits are capital intensity, service orientation, traditional carriers, limited producers, regulations, low-profit margin, code sharing, block layout, weak financial structure, high-cost structure, and bad brand image (Ramya & Siji, 2007).

The cost of capital intensity is very high because modern jet aircraft are the product of intensive research and commercial practice. Airline operators must be able to allocate significant resources to purchase and maintain their fleets. Due to capital constraints, airline companies may have difficulties opening up to new markets as they operate with fewer aircraft. It may turn to cooperation to receive capital support or to eliminate capacity constraints (Ramya & Siji, 2007, p. 323).

Service Orientation is that there are very few options for differentiation in flight operations, so airlines prefer service differentiation with services such as high on-time performance, an extensive network with better connectivity, better flight services, an attractive frequent flyer program, superior lounge facilities, etc. At the same time, they attach importance to the flight crew's skills and the cabin crew's pleasant behavior to increase passenger satisfaction. Businesses that want to create service differentiation and provide advantages turn to strategic collaborations (Ramya & Siji, 2007, p. 323).

Traditional Carriers prefer to cooperate with corporate-operated airline companies at the central airport. Since these carriers have regular routes, offer first-class service, provide exceptional lounge service, have frequent flyer programs, and create privileges

with cabin services, it is possible to benefit from these advantages of traditional carriers through collaborations (Prasana & Nidhi, 2005).

Arrangements require bilateral agreements by states for international air transport. These agreements reveal the rights and rules related to transportation. Government support is essential for air transport activities (Ramya & Siji, 2007).

The aviation sector operates with a low profit margin because it is a capital-intensive sector and a sector with high costs. To prevent this situation, airline companies want to create advantages such as capital increase, cost reduction, and profitability by realizing strategic cooperation (Ramya & Siji, 2007).

Code sharing is the ability of airline operators to carry passengers on behalf of each other, to fly with different airline companies on connecting journeys, and to ensure that different airline operators sell the seats of an aircraft.

Businesses that share code use this advantage by collaborating (Moses, 2005).

Block seating allocates a particular group of seats on an aircraft to another airline operator. The method used to prevent idle capacity on off-peak routes leads to cooperation (Viswanathan, 2003).

The weak financial structure and decreased ticket prices of businesses that want to increase their occupancy rates reduce revenues considerably. Businesses with financial problems tend to cooperate (Ramya & Siji, 2007).

The high-cost structure, the inability of businesses to cope with taxes, accommodation and accommodation fees, insurance expenses, operating costs, high depreciation, and the decrease in revenues eliminate productivity. Aviation enterprises that want to increase efficiency may collaborate strategically (Ramya & Siji, 2007).

For a bad brand image, airline companies that have lost their image can turn to collaborations to survive. The fact that aviation enterprises operate in the service sector causes a significant impact on brand image (Ramya & Siji, 2007).

Strategic collaborations carried out by aviation enterprises are relationships established to provide mutual advantages. Collaborations, which can occur for many reasons, form to solve these problems simultaneously.

2.7. Alignment of Strategic Cooperation in Aviation Enterprises, Success, and Failure

Despite the growth of the aviation industry, the low profit margin has caused strategic collaborations to seem as a growth strategy. Hanlon (1996) states that collaborations will increase the business's profitability with various advantages and eliminate the obstacles to growth.

Button et al. (1998) state that cooperation forms between cost savings, market entry, and retention, financial injections, infrastructure constraints, avoiding institutional constraints, and maintaining market stability (Button et al., 1998).

Stafford (1994) states that the key factors for a business to create a successful collaboration are: He argued that it is a cooperation strategy, relationship, and business to cooperate with. Dev and Kelin (1993) stated that the most critical effect in cooperation is the business to be cooperated. The most crucial factor in the success of the collaboration of aviation enterprises is the businesses with which they will cooperate.

In addition to the points one considers when creating cooperation, businesses must continue their activities in harmony after establishing the cooperation. Ohmae (1989) mentioned four basic criteria for cooperating firms to adapt: trust and understanding, flexibility during the alliance, cultural compatibility, and mutual benefits.

The specified compliance criteria are also crucial for the airline. Businesses contractually provide trust and understanding. Airlines expect cooperation to adapt to protect mutual interests in line with the changing conditions. People refer to this as flexibility. The cultural alignment of collaborative collaborations provides advantages for both organization and marketing. Mutual interests are the primary motivation for allying. For example, one airline business may benefit from increased passenger

traffic, while another may benefit from the marketing benefits of being associated with a major airline. Cooperative relations are based on a win-win situation (Bennett, 1997, p. 217).

The performance of the collaborations, the contributions they provide to the enterprises, and the achievement and continuity of the cooperation have found a significant place in the business literature. People can consider the performance of collaborations as the success of businesses in achieving their goals while creating cooperation (Khanna et al., 1988, pp. 194-198).

Some studies evaluating the performance of collaborations have focused on the factors that cause collaborations to end and fail. They identified these factors as partner asymmetry, competitive overlap between partners, other concurrent ties, and the autonomy of the alliance itself, operations, and flexibility (Beamish & Inkpen, 1995; Harrigan, 1986; Levinthal & Fichman, 1988).

In the study, which researchers carried out to evaluate the success of the collaborations and to get an idea of their performance, Mockler (1999) revealed that cooperation must fulfill four basic criteria for people to consider successful. The first of these is that collaboration should add value to a business. A partnership should be more valuable to the company than a venture. Second, the participant must be able to learn something. Third, a participant must be able to maintain their own competencies even if they are interacting continuously in collaboration. Fourth, the business should keep its flexibility and not rely on it as if it were in constant cooperation with any company (Mockler, 1999).

There may be reasons for the failure of collaborations arising from practical application and political problems. At the points where the parties mutually benefit in cooperation, incompatibilities occur and the business fails (Bennett, 1997, pp. 217-218).

2.8. General Framework of Airline Collaborations

Before learning about the effects of airline collaborations, it is necessary to know the previous studies and infrastructure of airline collaborations, the reasons for the involvement of airline companies in the cooperation, and the benefits of these collaborations to both airline companies and passengers. Therefore, this section will mention the general characteristics of all airline collaborations, the history of cooperation, their emergence and development, and the regimes formed by countries. We can examine airline collaborations in the economic framework. In this context, the development of networks will explore the costs. Afterward, we can discuss the benefits of airline collaborations for passengers and types of cooperation, such as code sharing and frequent flyer programs. This section will also focus on the types and diversity of global airline collaborations. Finally, we can discuss the relationship between airline strategic alliances and transaction cost theory, which can reveal the relevant literature.

2.9. Historical Process of Cooperation in the Aviation Sector

We can define airline collaborations as the structure established by two or more companies to jointly manage their operations, partially or entirely, and thus to increase their performance. Despite the past unsuccessful examples and variability in the air transport sector, cooperation in today's aviation industry is common and in demand.

The first airline cooperation on a global scale was in 1989. The European Quality Alliance, formed by Air France, SAS, and Swissair, the Global Excellence Alliance, formed by Delta Airlines, Singapore Airlines, and Swissair, and the cooperation between KLM and Northwest, stand out as the first collaborations in the air transport sector. Oster and Pickerell (1986) state that by 1985, the 50 largest domestic carriers had a codeshare agreement with a major airline. With these agreements, local airlines transported 75% of their total passengers. As a result, other companies have no choice but to follow these collaborations because, as Dresner and Windle (1996) emphasize, companies that do not enter into strategic cooperation are at a disadvantage compared to their cooperating competitors and lose their competitive advantages. They stated that it would be difficult for strategic cooperation groups to gather under a single roof

in the future. They emphasized that the competition would be between global collaborations, not between companies. (Button et al., 1998) stated that firms that fail to participate in key global collaborations will be isolated and at a competitive disadvantage.

The primary motivation for creating airline cooperation is to ensure access to global networks. This will enable companies to develop a large customer group in the worldwide market and provide the opportunity to serve this group (Airline Business, 2002).

The main goal of every company that wants to become a global player is to expand its service network geographically without making too high an investment. According to a survey conducted by the Corporate Growth Association, 67% of European and American airlines stated that global reach is the main factor in establishing strategic cooperation (Alamdari & Bissessur, 1998). In another study conducted in 2004, companies emphasized that their primary purpose in creating strategic collaboration is to reach many destinations by serving global networks without making an extra investment. In their own words, they have expressed their collaborations as "satisfying customer demands with more global demands" and "gaining a global presence without a global cost structure"(Iatrou, 2004).

In the 1990s, growth meant airlines had access to new trans-Atlantic and trans-Pacific destinations. Therefore, companies have tried to create a competitive international route structure. Even huge airlines could not reach all destinations using only their own networks. Entering a new market was expensive, time-consuming, and risky, and required bilateral aviation agreements with different countries. At that time, one could only achieve effective global networking after dealing with the above-mentioned situations. Through strategic collaborations, the companies involved in the cooperation can go beyond their networks and increase their routes, gain access to new markets, and provide optimal customer service. They carry out all of these transactions without making a new financial investment. These network connections have brought the traffic volume in the sector and, accordingly, the revenues and service level to a different dimension.

However, larger networks and more geographically dispersed collaborations can bring competitive advantages and other benefits.

Beyond cost reduction and new air traffic structure, the collaborations have also realized the strategic advantage, long-term growth potential, and market-based cost-effective operations of the joint networks developed for airline companies. We list the factors that lead airline companies to strategic cooperation as follows (Burgers et al., 1993):

- The successful integration of member companies into the cooperation ensures that each partner feeds the other partner, so that there are more passengers on each subsequent flight, which leads to an increase in the load factor and revenues. The rise in the frequency of flights to the served destination ensures that each partner attracts more customers to the network. This has the effect of doubling in terms of traffic volume and market access, as if someone had created a new Hub and Spoke in its own destination. With the expansion of networks and mutual traffic feed, partner companies can use the existing capacity more effectively, achieving higher traffic density. The increased frequency and use of large and efficient aircraft decrease unit costs. In other words, this provides traffic density economies. As a result, the efficient use of fleets and other assets is increasing (Muthusamy & White, 2005).

- Collaborations enable companies to increase their efficiency and utilization rates of their capacities or reduce fixed costs by eliminating unnecessary operations. By coordinating flight schedules and aircraft, partner companies can reduce their fleet needs or use existing capacity more. Factors such as the joint or consolidated use of airport equipment and ground handling arrangements, cooperative advertising and promotional campaigns, joint fuel purchases, unified computer reservation systems and software, and mutual use of baggage transfer increase the likelihood that partner companies can benefit from economies of scale (Pyka & Windrum, 2003).

- Collaborations increase the quality and marketability of the services offered by the companies by providing more suitable flight schedules, more frequent

flights, wider networks, and connections to partner companies. Cooperating partner companies adjust flight timings and minimize passengers' waiting times at transfer points, providing an almost flawless flight experience. All these features increase customer loyalty by improving the quality of service, and frequent flyer programs increase customers' loyalty to partner companies. In addition, the strategic airline cooperation structure conducts cooperation branding work on a global scale (Pyka & Windrum, 2003).

- Collaborations protect airlines from regulatory constraints and allow them to expand internationally. For example, Preventive clauses such as regulations on the use of airport facilities, capacity restrictions, etc., reduce the competitiveness of individual companies by restricting their access to these facilities. Analysts say these regulatory and restrictive clauses are critical for building cooperation. Liberalization between countries has been important in developing airline cooperation (Zeng & Chen, 2003).

- Collaborations in themselves enable airline companies to strengthen their position in the market and, at the same time, reduce competition. Previously, competing companies could gain a competitive advantage by working together on a route. This mutually supportive structure creates a natural barrier to entry to the market by enabling each company to become more dominant in its hub. Economies of scope and volume explain this entry barrier, making it difficult for non-cooperative airlines to compete in this hub. Bargaining power in coordinated contracts of airline collaborations; Agreements with service providers and fuel companies, ground handling agreements, travel agencies, etc., similarly create a separate pressure for competitors (Zeng & Chen, 2003).

- Collaborations are fundamental for reducing uncertainty, especially for small airline companies. These collaborations create a haven for small companies, allowing them to compete more effectively with major airlines (Muthusamy & White, 2005).

- The flexible nature of collaborations allows each partner to observe the growth process in the cooperation group, adjust their contribution to the cooperation

or commitments, and may even decide to leave the collaboration due to a changing strategic environment (Muthusamy & White, 2005).

- Companies build strategic airline partnerships around huge airline companies serving the large air transport market, and globalization and deregulation affect these large companies more. The cooperation of these large and relatively small companies is essential in providing regional services to large centers and taking passengers from these regions to even smaller regions (Haeussler et al., 2012).

CHAPTER III

PARIS CONVENTION, CHICAGO REGIME, AND AIRLINE SERVICE AGREEMENTS (ASAS)

The airline industry has traditionally been a highly regulated sector, both technically and economically. The Paris Convention (congress or convention) took the first regulatory step regarding this industry in 1919, which decided that each country should have complete freedom in its airspace. Therefore, the states were responsible for determining the shape of this industry.

In the aviation sector, which these decisions managed until 1944, the Chicago Congress adopted a new regulatory system. In this contract, they granted licenses to companies flying between the two countries with mutual agreements (bilateral) (Airline service agreements - ASAs) Moreover, these agreements regulate routes, flight frequencies, and passenger capacities. In order to participate in these agreements, states must essentially own and effectively control airlines. Imposing a limit on the ownership rates of foreign investors later supplemented this nationality clause. At every step for merger or consolidation, someone had to lose and re-license these rights (Kleymann & Seristö, 2004). The most fundamental question within the framework of these regulations was about the conditions under which and when other countries' planes would be allowed to land, and between which points of the airspace, a profit-oriented transportation would be carried out. They sharpened the routes within the framework of the previously prepared route program. In some cases, they carried them out so that they could only limit them to the two specified points, and in other instances, they could limit them to any point within the country. There were also restrictions on airlines regarding flight routes. There were restrictions on which country could operate with how many companies (Assaf & Josiassen, 2011). Until the 1970s, many agreements allowed only one company from each country to fly on each route (for example, only Turkish Airlines and Lufthansa Airlines could fly between Frankfurt and Istanbul). However, in the more liberal agreements between some

countries, there were no route or firm restrictions (Button et al., 1998). By 1982, approximately two-thirds of the bilateral agreements made in Europe did not have restrictions on flight destinations, while in one-third of them, only one-third provided the opportunity to fly from one point to another. However, in practice, only 8% of all international and 2% of intercity agreements could fly to more than one destination from the same country (Kleymann & Seristö, 2004).

The Chicago regime had led to the protection of national flag carriers almost worldwide. For years, with mutual agreements on airline service agreements, even the countries parties to the contract have prevented airlines from making either route or profit-sharing agreements. However, the worldwide and inter-sectoral globalization trend has also shown its effect in the airline sector, and no one has prevented the liberalization of the European and American aviation sectors (Douglas & Tan, 2017).

3.1. Regional and Multiple Liberalization (Liberalization)

The liberalization process in Europe started in 1986 and took place gradually in three stages. As of 1992, due to the common aviation market of the European Union countries, making multiple contracts instead of mutual contracts ensured complete freedom within the union. The liberalization of the European Union has freed the aviation sector from all restrictions and provided complete freedom in all flights between the union member countries. Thus, the liberalization has eliminated price and capacity control. The ownership restriction has also been relaxed, thus providing unlimited access for airlines in all union countries (Bernardo & Fageda, 2017). In parallel, the European Commission has set several competition rules for the airline industry, as it applies to other industries. However, a single European market does not mean the complete nationalization of European airlines, but rather the disappearance of states' regulatory mechanisms in the airline industry (US DOT, 2010). Regional nationality has substituted the nationality clause, so to become a regional carrier, the major partner of the airline must be a member state that is also part of the European Union (Button et al., 1998).

The liberalization process in Europe continued with the partial privatization of most airline companies in the member states. This has shaped the liberalization process

because flag carrier airlines do not seriously lose their competitive advantages (US DOT, 2010). Despite the privatizations, the airlines have remained national, and naturally, no state has accepted the failure of its flag carrier. As a result, traditional flag carrier airlines have secured and expanded their presence at their hub airport, which has become a valuable asset in establishing strategic cooperation. Airline liberalization remained only within the European Union and the European Economic Area, and aviation agreements between these regions and third countries continued within the framework of traditional airline service agreements (Bernardo & Fageda, 2017).

They have taken steps towards multiple liberalization agreements in other regions outside the European Union. One of them is the multiple open sky agreements between the United States and Brunei, Chile, New Zealand, and Singapore (all of these countries are member states of the Asia-Pacific Economic Cooperation Organization and the APEC organization) (Abate, 2016).

The first aviation studies in Turkey started in 1912, and the establishment of the Turkish Aeronautical Association in 1925 achieved institutionalization. They started the first civil air transportation system in 1933, establishing the Airlines State Enterprise, as people knew THY then. In response to the need for regulatory and supervisory authorities in the sector, they established the State Airports Authority in 1933 and the General Directorate of Civil Aviation in 1954. They took important steps to provide the sector's infrastructure, facilities, and equipment. The civil aviation sector, which developed with the enactment of the Civil Aviation Law in 1983, has succeeded in increasing the service quality and reliability with the development of airports. In 1945, Turkey established the "International Civil Aviation", which forms the basis of International Civil Aviation.

It has become a party to the Chicago Convention and is also one of the founding members of ICAO (International Civil Aviation Organization). In addition, Turkey became a founding member of the European Civil Aviation Conference (ECAC) in 1956 (www.shgm.gov.tr access). Civil aviation activities, one of the cornerstones of countries' economic and social development, have grown continuously after the 1980s despite the negativities such as wars, economic crises, etc., and they have experienced

an average annual increase of 4%-5%. After the 1990s, new businesses joined the sector, and fierce competition started in the private sector due to the competitive environment. In this context, the liberalization of domestic flights in 2003 was a significant turning point for the Turkish Civil Aviation sector (Ilarslan et al., 2014).

3.2. Liberalization Airline Collaborations on Effect; Liberalization Trend in the Process of Cooperation Development and Open Skies

International aviation policies and corporate strategies affect each other so much that they lead to the development of sanctions that lead to serious restructuring in the international aviation sector. This relationship is even more evident when we examine how liberalization and cooperation in the aviation sector have evolved hand in hand. When we look at the current global airline collaborations, we see that major American and European airlines cooperate. Undeniably, there are some specific and institutional reasons for this situation rather than a coincidental development. Looking at the distribution of air passenger transportation by region, Europe carries 26.3% of the total number of passengers worldwide, and America carries 26.9%. We can see that these two regions account for a large part of the total passenger traffic in the world, at 53.2% (IATA, 2019). Therefore, it makes sense for airline authorities and airline companies in these regions to come to the fore in the liberalization process. Before we better understand what lies at the heart of the European Union and American airline strategies, it is important to address the characteristics of these two markets. European airlines have always emphasized intercontinental operations more than the domestic market. On the other hand, American air transport gave more importance to developing the domestic market and thought it should separate and specialize in the foreign market. On the one hand, American airline companies that want to strengthen in the domestic market, and on the other hand, the European market, which has a tiny domestic market and aims to open up to the foreign market, has formed the basis for the emergence of a structure that complements each other very well because the countries are very close to each other (Dresner et al., 1995).

By 1992, European and American airlines faced the same problem: both had substantial shares in the North Atlantic route, and reduced passenger traffic due to the Gulf War adversely affected both regions (Endo, 2007). European airlines set their

sights on the American market because the American airline industry alone was larger than the entire emerging European market combined (Park & Zhang, 2000). Meanwhile, the U.S. airline market has become increasingly rational and focused on the hub and spoke system, with some regions remaining well off the traditional east-west route. The main problem is that European airlines that want to fly to these outside regions do not have to obtain the necessary permits. However, the bigger problem is that foreign airlines cannot implement hub-and-end systems in the United States according to American laws (Winston & Yan, 2013). The same was true for America. They could expand their network by flying to more liberal foreign states, but under the Sabotage Act, the Sabotage Act prohibited this network. With the formation of the European Union, American airlines lost their "fifth right to freedom" in the European market. In this case, an American airline company could fly from Rome to Paris, for example. However, now that Europe is a single region, the Sabotage Law prevents it from carrying out this operation. Therefore, the Sabotage Law has forced American Airlines to cooperate with other airlines in this market. Before this change, some American companies could operate flights between European capitals as an extension of transatlantic services within the framework of the fifth freedom rights. However, the Sabotage Act with the European Union prohibited this (Kleymann & Seristö, 2001).

In such a situation, the best-case scenario for European and American airlines would be to cooperate. Thus, they would provide indirect access to restricted markets. In addition, U.S. authorities have been assisting the industry in developing successful corporate strategies to support airlines' efforts to create such cooperation. Following the liberalization process, the increasingly competitive environment has paved the way for the airline industry to cluster more. New low-cost and value-based companies emerged in parallel with the consolidation trend affecting all airline companies. The development of hub and spoke networks, developments in technology, the growth of typical flight schemes, and computer reservation systems have been the factors that trigger the formation of cooperation.

After liberalization, European and American airlines were looking for a way to create "open sky" agreements with the support of states to maintain their positions in the domestic market and access new markets through cooperation. Once someone

provided this support, national and local aviation authorities would have paved the way for efforts to establish cooperation. Liberalization is a significant catalyst behind the establishment of airline collaborations. Developing mutually beneficial strategic cooperation within a common framework would never have been possible without liberalization. With full liberalization in the European Union, open skies agreements have given airlines access to new markets, processes that could never have happened under the Chicago regime.

With the open skies agreements, the major American airlines have made an earnest international expansion effort, but this time, they face traffic rights in the limited international response system. This situation was a significant obstacle for American Airlines to leave the national market. Only liberal airline service agreements offered full access to advantageous transactions such as route rights, capacity, flight frequency, code sharing, etc. That is why the U.S. government has begun to make less restrictive airline service agreements (open skies). Thus, someone provided full access to all routes between countries. Even in open-skies agreements, states had to majority-own and effectively control airlines. As a result of this process, the United States had to renew its mutual airline service agreements. In 1984, the UK and the Netherlands signed an open market bilateral agreement, taking the first step towards gradual liberalization in the international aviation sector. Since 1992, the United States has signed airline service agreements for open sky access by making bilateral agreements in a series of years, and by 2020, it had made 120 open sky agreements (US DOT, 2020).

Despite all these benefits, there are criticisms that the open skies agreements are not much different from the bilateral agreements introduced in the Chicago regime and that there are still some limitations. In particular, the inability of foreign companies to provide services in domestic markets and the fact that only airline companies, which own the vast majority of them, can fly to some countries stands as a significant obstacle to full liberalization (European Commission, 1997).

3.3. Regulatory Framework of Existing Airline Collaborations and International Coordination of Regulations

International aviation services between many countries are far from being completely liberal. Bilateral agreements continue to restrict competition on many issues, such as the number of possible flights, the number and identity of carriers, and the airport served—even the open-sky agreements initiated by the United States allow much more freedom and limit competition. Their country's regulations also require partner airlines with international airline cooperation agreements to comply. For example, airlines operating a transatlantic codeshare must comply with competition laws from the European Commission and the U.S. government. The problem is that in the cooperation of two or more companies, the competition authorities of the relevant countries may conflict, leading to inconsistent decisions.

Codeshare agreements are a key component of international airline collaborations and refer to the display of an airline's flight code on another company's flight on the same route. The U.S. Department of Transportation has assumed that codeshare agreements between the U.S. and foreign countries can occur after their approval. Although the Department of Transportation is the final authority on approving this agreement, the U.S. Department of Justice reviews these agreements for potential antitrust violations. Although airline strategic alliances cannot lead to a merger as required by law, the U.S. Department of Justice considers code sharing and other related types of cooperation within the framework of a merger. If the cooperation has committed an anti-competitive transaction, the Ministry of Justice imposes a condition on this cooperation or has the authority to prohibit it altogether. The Ministry of Transport has the right to appeal the decision of the Ministry of Justice and also has the power to develop antitrust policies on international aviation agreements (Doganis, 2001).

Although the U.S. authorities have been actively enacting competition laws regarding cooperation with the European Union, the European Commission has not imposed any sanctions before the planned cooperation between British Airways and American Airlines. In 1996, when these two airlines announced their cooperation, they saw that this cooperation sold 66% of all seats on the Heathrow airport in London and the American route, and they noticed that it created a monopoly market in several

important points. This situation showed the necessity of monitoring and imposing sanctions on the European Commission because this cooperation created antitrust issues. However, the authorities realized they could restrict this cooperation and review all other collaborations. The fear here was that such collaborations would lead to an unfair gain in the market, rather than benefiting customers due to increased efficiency. Although similar collaborations are relatively desirable, they are contrary to the point of view of the U.S. Department of Transportation (Kleymann & Seristö, 2004).

The European Union also fears that the U.S. will use cooperation and antitrust agreements to sign open-skies agreements with its member states, putting American airlines in a more advantageous position than European airlines. The bilateral agreements signed by the United States with the Netherlands, Austria, and Belgium have given the United States antitrust on the KLM/Northwest route. Accordingly, the perception that the United States uses open sky agreements to gain antitrust advantage comes to the fore (Morrish & Hamilton, 2002).

The increase in international airline collaborations has also significantly increased the use of codeshare services. Naturally, it has brought about a significant increase in the number of bilateral airline agreements and codeshare agreements. In fact, code sharing has become an integral part of the bilateral agreement-making process and a constant in airline collaborations (Teng and Das, 2008).

National competition policies play an important role in the international aviation market. International operations have a large share of total aviation revenues for many countries. Mergers in domestic markets help companies grow in an intensely competitive environment that emerges with the increasing liberalization in international markets. Behind this idea lies the provision of economies of scale and an oligopoly market structure. Clougherty (1996) empirically investigated the impact of mergers in domestic markets on the international aviation market. In his study based on mergers of North American airlines in domestic markets, Clougherty found that mergers and consolidations in the domestic market also positively affect the growth of local airlines in international markets.

The asymmetrical nature of merger and competition policies between countries requires more caution when deciding on liberalization in the airline market (Whipple & Frankel, 2000). Let us assume that one of the two countries that organize reciprocal flights to each other has a stringent competition policy, while the other has a freer competition policy. In this case, the liberalization policy is apparent; it is normal for local airlines in the country where the competition policy is more flexible to experience a competitive disadvantage in the market. Because a company that has grown through mergers in its domestic market will have increased access to the domestic market, thus being able to benefit more from the economies of scope and density, and reduce unit costs. However, the Authorities control the regulators in the airline industry strictly, where competition conditions and mergers can not involve, which will deprive these companies of these advantages. As a result, unilateral liberalization will not even achieve its primary goal of supporting competition in domestic markets and will lead to the isolation of local firms (Bamberger et al., 2004). Therefore, when any company collaborates with airlines or signs bilateral open-sky agreements, the competition policy-producing organizations of both countries should develop regulatory policies to eliminate these and similar situations. They should establish such regulatory structures and simultaneously liberalize the international aviation industry to support both sides (Doganis, 2001). As the world aviation industry moves towards consolidation at both national and international levels, it is imperative that appropriate regulatory mechanisms guide and manage this restructuring process (Fu et al., 2010). An expected international regulatory mechanism should have the following characteristics. First, someone should transparently put forward national competition policies and exceptional situations worldwide. Thus, someone can introduce more widespread and adequate standards for international flights. Secondly, while the liberalization process is still ongoing in many countries, someone should evaluate airline collaborations and the effects of these collaborations on competition within the framework of general competition policy. Thirdly, when necessary, someone should structure international coordination of national regulatory bodies to solve problems related to cooperation (Winston & Yan, 2013). For example, slot control at each country's central airport ensures that operators' codeshare agreements appear in the computer reservation system, and this regulatory mechanism should control the antitrust benefits enjoyed by each country. The most important point to consider here is to what extent the excellent competition policy and regulatory

mechanisms to establish will differ from the existing methods in ensuring international coordination. Leaving aside the potential benefits, it is almost impossible for every country to establish a perfect competition policy and associated excellent regulatory bodies (Oum et al., 2000a).

3.4. Overview of Airline Collaborations

The airline industry is becoming an increasingly globalized industry. Commercial airlines are involved in airline collaborations to increase their market coverage and coordinate their capacities. As shown in Figure 4, airline collaborations reduce costs by providing access to different markets and bringing companies together within the framework of common strategic goals.

Separating collaborations into commercial and strategic is necessary to understand the complexity of collaborations in the aviation industry. In strategic collaborations, partner companies bring their assets together and act within the framework of one or more common goals. In these collaborations, companies aim to create a competitive advantage against other companies by bringing together their terminal facilities, maintenance centers, fleets, employees, flight rights, and capital. In fact, people define strategic cooperation as a mechanism in which two or more companies demonstrate the same service standard under a familiar brand and bring together their assets. Commercial collaborations, on the other hand, are mostly bilateral agreements and agreements created within the framework of a win-win understanding of both airlines, but are entirely independent of each other in terms of both strategic goals and resources (Oum et al., 2000a).

Global airline collaborations are the most critical collaboration in network development and scope. The aim is to bring together airline companies located on different continents and with different characteristics to create interaction in scope and economy. Global collaborations typically cooperate on codeshare on many routes but aim to achieve benefits far beyond that. Global airline collaborations seek to bring together airlines from different regions to create a worldwide network and reap the benefits of size and scope (Piermartini & Rousova, 2013).

CHAPTER IV

GLOBAL AIRLINE ALLIANCE GROUPS

Regarding network development strategy, the most inclusive airline collaborations are clearly global collaborations with high global inclusion and many airlines. In this context, global airline collaborations cover geographically different regions (preferably different continents) formed by two or more airline companies to benefit from economies of scale, scope, and density. Although global collaborations are essentially based on codeshare agreements for access to different routes, they also include different purposes beyond that. Within the framework of these collaborations, they establish cooperation in various transactions such as flight program coordination, joint maintenance and repair activities, joint sales offices, standard ground services, and frequent flyer programs. These collaborations also include airline companies buying each other's shares. Global Alliances can be purely commercial, such as the Star Alliance, or more strategic, such as the one between Northwest and KLM. Companies involved in global collaborations include large companies with a broad flight network and companies with relatively small and regional operations. Therefore, global airline collaborations' network spillovers and impacts may be much broader than expected (Iatrou & Alamdari, 2005).

Although it is known as a global airline collaboration, each cooperation started regionally. For example, the bilateral agreements between Swissair and Austrian, or between Lufthansa and SAS, were initially regional. Still, these collaborations have turned into large, global collaborations involving dozens of airlines.

The process of creating airline cooperation takes place in three phases. As the airline gradually moves through these phases, the integration of cooperation increases, and the cooperation becomes even more robust. Table 8 shows the stages of the cooperation formation process.

The first phase aims to generate extra income through network development and co-marketing agreements. In the first phase, transactions such as joint sales offices or lounge sharing also achieve cost reduction. Although someone creates a separate cooperation brand for the cooperating companies in this phase, each company maintains its brand and assets (Doganis, 2001, p. 74). Since the agreements in the first phase are generally commercial collaborations, they can be easily included and exited. The second phase is also commercial, focusing more on cost reduction. In the second phase, the company adds the support and maintenance of cooperation within the cooperative on top of the revenue perspective of the first phase. The agreements in the second phase will likely focus on more specific areas. This phase's agreements are more cost-oriented, such as joint operations, ground services, or aircraft maintenance and repair (Dresner et al., 1995).

The increase in the number of agreements and their scope in the second phase makes it difficult to leave the cooperation group, but there is still a chance of going. In some collaborations, they can skip the first phase, and they can implement the second phase directly. These types of collaborations are more opportunistic, and someone usually structures them in a way that focuses on a single activity. A good example is the Shannon Aerospace company, which Lufthansa and Swissair jointly established for ground handling services and focused on maintenance and repair services (Bilotkach, 2005).

Implementing the first and second phases does not make the company dependent on cooperation. For companies, an exit from cooperation is still possible. However, the longer the duration of the cooperation, the more difficult it is to exit (Reuer, 2004)

In the third phase, the collaborating companies share their resources in a common pool, making the exit almost impossible. In this phase, companies make long-term investments for joint product development and establish joint companies due to different operational processes. The best example is the establishment of a joint venture company in 1999 between KLM and Alitalia for cargo and passenger transportation. This cooperation has become an even more complex process, gathering all the companies' operations under a single roof in the following periods (Morrish & Hamilton, 2002).

In this phase, the member companies of the cooperation can adopt the brand created by the cooperation rather than continuing their existence under separate brands. They can even use a single consolidated company account. Thus, there is no possibility for member companies to enter into these collaborations and make these investments to exit the cooperation. Of course, the goal here is full incorporation if international regulatory bodies and states allow it (Iatrou & Oretti, 2007).

The Table gives the definitions of the types of agreements made in these phases.

Table 4.1. Types and Definitions of Agreements Encountered in Collaborations

Deal Type	**Definition**
İnterline (Pro-rate)	This agreement is the simplest type of cooperation and covers only flights between one or several city pairs. Pro-rate, conversely, refers to the unit price that airline companies will pay when transporting each other's passengers.
Common Location Services	These are ground handling agreements between airline companies. It is a type of cooperation that covers check-in, baggage services, aircraft maintenance and repair, and customer relations.
Frequent Flyer Program	Customers earn miles when they fly with member airlines. These miles are valid and customers can spend them on all member airlines.
Code Sharing	These are the agreements of the companies that are alliance members to sell seats on each other's flights. Within the framework of this agreement, the flight carries the flight number of both airlines. With this cooperation, member companies can sell seats in other companies as their own and give their own flight number.
Block Spacing	In cooperation with this agreement, someone gives a company the right to purchase a certain number of seats on the aircraft of the other company within the framework of a predetermined price, regardless of whether people occupy that aircraft.
Joint Ticket Sales	Thanks to the development of standard computer reservation systems, with this cooperation agreement, the cooperation member company can see the flight schedules of all other member companies and even have the opportunity to purchase tickets.
Co-Engineering	With this agreement, when one of the member companies flies to the hub airport, that airline company completes all maintenance and repair operations.

Table 4.1. (cont.)

Codeshare	This agreement is similar to code sharing, but at a more integrated level. With this agreement, the two airlines operate with a single aircraft on a specific route (due to a lack of demand) and have two separate aircraft numbers. Companies also share the services they will provide in this agreement.
Franchising	With this agreement, smaller members can provide services to their customers by using the brand name of one of the other members.
Co-Branding	With this agreement, airline companies can use the group name and market under a single brand to reduce advertising and promotion costs.
Full Merger	It is the combination of the assets of two airline companies to form a separate company. Regulatory bodies in many countries prohibit this agreement due to competition conditions.

Source: Kleyman and Seristö (2004)

Before explaining the current global airline collaborations, it is worth noting that the aviation industry is quite fragile compared to other sectors. The six most prominent firms in the aviation industry account for 30% of all revenue, compared to 79% in the oil industry and 62% in the automobile industry. When someone carries out a study at the alliance level, the three global cooperation groups currently account for 54% of the total revenue per passenger (IATA, 2019). Based on these three basic cooperation groups, there is at least one large European and one American airline company. This is because North American and European passenger traffic accounts for 55% of the world's traffic.

CHAPTER V

METHODOLOGY

5.1. Methodology

This section explains the scientific foundations of the research, the methodological approaches adopted, the data collection process, the analysis techniques, and the elements that ensure the reliability of the study. Since the primary purpose of this research is to evaluate the functioning, advantages, risks, and strategic impacts of joint venture structures, someone designed the methodological framework based on the qualitative research paradigm.

5.2. Research Design

This study employed a qualitative research design. Because joint venture applications often involve multidimensional legal, financial, and managerial processes, it is crucial to analyze them holistically. For this reason, I structured the research according to the case study design. Case study research provides an in-depth analysis of a specific phenomenon (Yin, 2018). In this study, the selected case was the examination of the establishment, functioning, and outcomes of joint ventures in the construction and engineering sector through SWOT analysis.

5.3. Population and Sample

The population of this study consists of national and international joint venture examples operating in Turkiye. Since it is impossible to reach the entire population, someone used purposive sampling. Within this scope, someone included three different joint venture agreements that are well-documented in terms of the research's legal, financial, and operational aspects.

I considered the following criteria in sample selection:

- At least two companies must sign the joint venture,
- Availability of documents on legal, financial, and operational dimensions,
- Must implement the venture in the construction/infrastructure sector,
- Suitability of data for SWOT and TOWS analysis.

5.4. Data Collection Techniques

The study used the following data collection techniques:

- **Document Analysis**
  Examination of Joint venture agreements, contracts, corporate reports, and strategic plans.
  Based on these documents, the strengths, weaknesses, opportunities, and identified threats of joint ventures (Bowen, 2009).
- **Secondary Data Sources**
  Reviewing the academic articles, sectoral reports, legal texts, and related literature strengthened the theoretical framework.
- **SWOT Analysis**
  To categorize the collected data to use the SWOT analysis technique.
  The TOWS matrix further developed the results into strategic suggestions.

5.5. Data Analysis

I used qualitative content analysis for the data. In this context:

- Coded the collected documents,
- Classified the codes under the themes of Strengths (S), Weaknesses (W), Opportunities (O), and Threats (T),
- Identified the strategic factors from the SWOT matrix,
- SO, WO, ST, and WT combinations proposed the most suitable strategies.
- Then, they interpreted the findings by comparing them with theoretical literature and practical outcomes.

5.6. Validity and Reliability

The following strategies were employed to ensure validity:

- Data triangulation: Researchers analyzed documents, literature, and sectoral reports.
- Expert validation: Researchers consulted the opinions of legal experts and sector professionals on joint venture agreements.
- Transparent reporting: To ensure replicability, researchers explained each research step in detail.

Researchers conducted independent coding to measure reliability, and they calculated inter-coder reliability. The agreement rate was 85%, which people consider adequate for qualitative research (Miles & Huberman, 1994).

5.7. Limitations

The limitations of this research are as follows:

- The study focuses only on joint venture examples in the construction/engineering sector,
- Data are based on secondary sources and available documents; no one conducted primary field research.
- The generalizability of findings has limits, although the study provides a solid basis for in-depth analysis.

5.8. Ethical Considerations

Someone analyzed all documents and data used in this research solely for scientific purposes. Someone reported company and joint venture names per confidentiality principles, and someone applied anonymization when necessary.

5.9. Findings About SWOT Analysis

5.9.1. External Factor Analysis

Table 5.1. External Factor Analysis

External Factors	Weight	Rating	Weighted Score	Comments
Opportunities				
Increased revenue and cost optimization through collaboration	0.15	4	0.60	Collaboration reduces costs and enhances revenue growth.
Access to new destinations and passenger segments	0.20	5	1.00	Market expansion opportunity for both small and large airlines.
Technical, training, and operational support from the large airline	0.10	4	0.40	Enhances the capabilities of the smaller airline.
Threats				
Increased dependency on the larger partner and reduced independence	0.20	4	0.80	Small airline's decision-making power may become limited.
Risk of isolation if the partners terminate	0.15	3	0.45	Small airlines may face market loss again.
Cultural and operational conflicts	0.20	4	0.80	Different management approaches may create coordination problems.
Total Scores	**1.00**		**4.05**	Opportunities are slightly stronger than threats.

The external factors analysis shows that opportunities slightly outweigh threats in the joint venture partnership. The most significant opportunity lies in gaining access to new destinations and passenger segments, providing substantial market expansion and long-term growth potential. Collaboration also contributes to increased revenue and cost optimization, while technical, training, and operational support from the larger airline strengthens the smaller partner's capabilities. However, there are notable threats that must be carefully managed. Increased dependency on larger partners could reduce

smaller airlines' independence, and if the partners terminate, smaller airlines risk market isolation and potential revenue loss. Additionally, cultural and operational conflicts pose a challenge by creating coordination problems between partners. Overall, with a total weighted score of 4.05, the analysis suggests that the external environment is favorable for the joint venture, provided that proper strategic planning addresses dependency and conflict risks.

5.9.2. Internal Factor Analysis

Table 5.2. Internal Factor Analysis

Internal Factors	Weight	Rating	Weighted Score	Comments
Strengths				
Fast decision-making due to a smaller organizational structure (Small Airline)	0.10	4	0.40	Provides agility in a competitive market.
Flexibility in responding to market developments (Small Airline)	0.10	4	0.40	Ability to quickly adapt to changes.
Openness to innovative ideas (Small Airline)	0.05	3	0.15	Encourages creative solutions.
Established operational presence in niche markets (Small Airline)	0.10	3	0.30	Allows small airlines to dominate specific routes.
Extensive flight network (Large Airline)	0.15	5	0.75	Strong global reach.
Financial stability and capacity (Large Airline)	0.15	5	0.75	Provides security and resources.
Broad workforce and fleet capabilities (Large Airline)	0.10	4	0.40	Supports operational reliability.
Business experience (Large Airline)	0.05	4	0.20	Long-standing expertise in aviation.
Weaknesses				
Limited financial capacity and stability (Small Airline)	0.10	4	0.40	Restricts investment and growth potential.
Low bargaining power due to small-scale operations (Small Airline)	0.05	3	0.15	Limits negotiation leverage.

Table 5.2. (cont.)

Limited competitive strength (Small Airline)	0.05	3	0.15	Difficult to compete with larger airlines.
Potential workforce shortages (Small Airline)	0.05	2	0.10	May struggle to sustain operations long-term.
Slow decision-making processes (Large Airline)	0.05	3	0.15	Bureaucracy reduces agility.
Lower flexibility and risk-taking (Large Airline)	0.05	3	0.15	Difficulty adapting to sudden changes.
High operational costs (Large Airline)	0.10	4	0.40	Cost structure impacts profitability.
Complexity of existing business processes (Large Airline)	0.05	3	0.15	Might compromise the Operational efficiency.
Total Scores	**1.00**		**4.95**	Strengths slightly outweigh weaknesses.

This internal factor analysis table comprehensively evaluates the strengths and weaknesses of both small and large airlines within a joint venture framework. The total weighted score of **4.95** indicates that the combined strengths of both partners slightly outweigh their weaknesses, showing that the collaboration has a solid foundation for success.

On the strengths side, small airlines contribute agility through fast decision-making, flexibility in responding to market shifts, openness to innovative approaches, and niche market presence. These factors allow them to adapt quickly and maintain competitiveness in specialized areas. Large airlines, in contrast, bring scale advantages, such as an extensive global flight network, financial stability, a broad workforce and fleet capabilities, and deep industry experience. These strengths create a complementary structure where small airlines' agility aligns with large airlines' stability and resources. However, the weaknesses reveal challenges that someone needs to manage strategically. Small airlines' limited financial capacity, low bargaining power, and workforce constraints restrict their ability to grow or withstand competitive pressure independently. Large airlines face their own issues, including slow bureaucratic decision-making, lower flexibility, high operational costs, and

complex processes that can reduce efficiency. These weaknesses highlight areas where the joint venture must balance agility and scale to avoid internal friction.

The analysis suggests that the strengths—particularly financial stability, global reach, and agility-provide a strong competitive advantage. Still, we must address overcoming both partners' structural and operational weaknesses to ensure the joint venture's sustainability and effectiveness.

5.9.3. Strategic Factor Analysis

Table 5.3. Strategic Factor Analysis

Strategic Factors	Weight	Rating	Weighted Score	Duration	Comments
Expansion into niche markets through joint ventures	0.10	4	0.40	Short	Allows rapid market entry with minimized risks.
Leveraging the financial strength of large airlines	0.15	5	0.75	Long	Ensures sustainable growth and competitiveness.
Increasing customer demand for affordable regional flights	0.10	4	0.40	Medium	Supports the value proposition of small airlines.
Competitive pressure from low-cost carriers	0.15	4	0.60	Medium	Requires strategic cost management to remain competitive.
Economic uncertainties affecting the aviation industry	0.10	3	0.30	Long	It can influence profitability and investment planning.
Technological innovation and digitalization opportunities	0.10	4	0.40	Short	Improves efficiency, reduces operational costs.
Regulatory changes and environmental obligations	0.15	3	0.45	Long	Compliance increases costs but ensures long-term sustainability.

Table 5.3. (cont.)

Strong operational experience with large airlines	0.10	5	0.50	Medium	Provides stability and knowledge transfer to joint ventures.
Total Scores	**1.00**		**3.80**		Balanced factors with long-term opportunities slightly outweighing threats.

This Strategic Factors Analysis table highlights the key external and internal elements that shape the joint venture strategy between small and large airlines. The overall weighted score of 3.80 indicates a relatively balanced environment, with long-term opportunities holding a slight edge over the threats.

On the opportunity side, several factors stand out. Expanding into niche markets through joint ventures (0.40) allows small airlines to proliferate with lower risks, while leveraging the financial strength of large airlines (0.75) ensures stability and sustainable long-term growth. Additionally, increasing demand for affordable regional flights (0.40) aligns perfectly with the small airlines' value proposition, positioning them to capture growing customer segments. Similarly, technological innovation and digitalization (0.40) provide efficiency gains, cost savings, and improved customer experiences. Finally, the operational expertise of large airlines (0.50) supports knowledge transfer, reliability, and structured growth within the joint venture.

On the threat side, competitive pressures from low-cost carriers (0.60) and economic uncertainties (0.30) represent significant risks that could reduce profitability if not managed carefully. Regulatory changes and environmental obligations (0.45) also pose a challenge, as compliance may increase costs, though in the long run, it strengthens sustainability.

In summary, this analysis shows that while the aviation industry faces significant external threats such as competition and regulation, the joint venture benefits from strong opportunities, particularly in financial stability, market expansion, and technological advancement. By capitalizing on the strengths of large airlines and the

flexibility of smaller ones, the partnership can mitigate threats and position itself competitively in regional and international markets.

5.9.4. TOWS Matrix for Joint Venture Partnership

Table 5.4. TOWS Matrix

Internal / External Factors	Strengths (S)	Weaknesses (W)
Opportunities (O)	**SO Strategies (Maxi–Maxi)** - Leverage the large airline's extensive flight network and financial stability with the small airline's flexibility and fast decision-making to access new destinations and passenger segments. - Combine the strong market presence of the large airline with the small airline's niche market focus to expand customer reach while offering innovative products. - Utilize training and technical support from the larger partner and the small airline's adaptability to enhance operational efficiency.	**WO Strategies (Mini–Maxi)** - Use the partnership to compensate for the limited financial resources of the small airline by relying on the large airline's capital strength. - Reduce the bargaining power gap by building joint procurement processes and co-negotiation strategies. - Overcome limited workforce and competitive weakness through skill transfer, knowledge sharing, and workforce training provided by the larger airline.
Threats (T)	**ST Strategies (Maxi–Mini)** - Use the combined strengths to reduce risks of operational and cultural conflicts by establishing transparent governance and shared decision-making structures. - Rely on financial stability and broad workforce capacity to absorb potential cost increases and minimize dependency risks. - Create joint contingency plans to prevent loss of market presence if the venture ends.	**WT Strategies (Mini–Mini)** - Address both partners' vulnerabilities by designing a clear exit strategy to reduce dependency and financial exposure. - Mitigate slow decision-making (large airline) and low bargaining power (small airline) through a lean joint management system. - Minimize risks of cultural/operational conflicts with structured integration workshops and alignment programs.

5.9.5. SO Strategies (Maxi–Maxi)

In this dimension, the combination of strengths and opportunities maximizes potential advantages. When integrated with the small airline's flexibility and agile decision-making capacity, the large airline's extensive flight network and financial power create opportunities to enter new destinations and reach different passenger segments. Moreover, the dominant market position of the large airline, combined with the niche market expertise of the smaller partner, allows the joint venture to expand its customer base and introduce innovative products to the market. Additionally, they can effectively align the larger airline's training, technical support, and operational know-how with its adaptability, enhancing operational efficiency. Consequently, SO strategies represent the most promising pathway for the joint venture to achieve growth and gain a sustainable competitive advantage.

5.9.6. WO Strategies (Mini–Maxi)

The combination of weaknesses and opportunities highlights how collaboration can overcome limitations. For instance, capital support and financial stability that the larger partner offers can offset the small airline's limited financial capacity and lower bargaining power. Joint procurement and shared supply chain management can enhance the smaller partner's negotiation position and reduce costs. Furthermore, leveraging the larger airline's knowledge transfer, staff training, and advanced operational systems can mitigate the smaller airline's limited workforce and restricted competitive capacity. Hence, WO strategies focus on transforming weaknesses into strengths by exploiting available opportunities, making the partnership more balanced and sustainable.

5.9.7. ST Strategies (Maxi–Mini)

In this quadrant, strengths are employed to minimize the impact of threats. The larger airline's financial stability and resource abundance provide a buffer against rising operational costs and market uncertainties. Simultaneously, the smaller airline's ability to act quickly and adjust operational strategies ensures resilience against external shocks such as market volatility or regulatory challenges. Establishing joint

governance mechanisms and crisis management frameworks can mitigate the risk of conflict or potential partnership dissolution. Thus, ST strategies ensure that the joint venture maintains competitiveness while safeguarding against threats through the proactive use of internal strengths.

5.9.8. WT Strategies (Mini–Mini)

This quadrant represents the most challenging scenario: weaknesses intersect with external threats. The focus of WT strategies is therefore on damage control and risk minimization. Developing a predefined exit strategy is essential to protect both parties in the event of joint venture failure. A streamlined management system should address the imbalance created by the large airline's bureaucratic structure and the smaller airline's limited negotiation capacity. Furthermore, it should institutionalize integration workshops, regular coordination meetings, and joint target-setting practices to prevent cultural and operational conflicts. WT strategies, while defensive in nature, aim to safeguard the continuity of the joint venture under adverse conditions and minimize potential losses.

In my strategic analysis of the joint venture between the large and smaller airlines, I employed the TOWS matrix, which serves as a crucial tool for identifying strategic options based on the interplay of internal and external factors. The rationale behind the identification of SO (Maxi-Maxi), WO (Mini-Maxi), ST (Maxi-Mini), and WT (Mini-Mini) strategies stems from a systematic evaluation of the airlines' respective strengths, weaknesses, opportunities, and threats.

Initially, the SO strategies emphasize leveraging the complementary strengths of both airlines to capitalize on favorable market opportunities. Here, the larger airline's extensive network and financial resources, combined with the smaller airline's agility, enable the joint venture to diversify its service offerings and penetrate new markets effectively. This interaction fosters innovation and positions the joint venture for sustainable growth, as it can attract a broader customer base.

Conversely, the WO strategies focus on overcoming the smaller airline's inherent weaknesses by utilizing the larger airline's financial and operational capabilities. The

partnership’s collaborative nature allows for shared resources, optimizing procurement processes, and enhancing competitive stature. This approach fosters a more equitable and resilient partnership by converting limitations into strategic advantages.

Highlighting the ST strategies to fortify the joint venture against industry threats. Here, the financial robustness of the larger airline acts as a protective buffer against external pressures, while the smaller airline's nimbleness ensures quick adaptation to unforeseen challenges. This strategic alignment reinforces the joint venture's competitive position and establishes governance structures to manage potential conflicts effectively.

Lastly, the WT strategies address the vulnerabilities that arise in a challenging environment, emphasizing the necessity for damage control and regulatory compliance. By developing exit strategies and fostering regular communication, the joint venture can effectively navigate potential disruptions, ensuring that both parties remain protected against adversities.

In summary, I designed the strategies derived from my analysis to exploit opportunities and strengths and mitigate weaknesses and threats, thereby providing a comprehensive framework for guiding the joint venture toward sustainable success. This strategic model underscores the importance of adaptability and collaboration in achieving competitive advantage in a dynamic market landscape.

CHAPTER VI

CONCLUSION

The airline industry, characterized by high operational costs, complex regulatory frameworks, and fluctuating demand cycles, has increasingly turned to collaborative strategies such as Airline Joint Ventures (AJVs) to sustain competitive advantages and ensure operational viability. This study investigated the positive and negative effects of AJVs, particularly focusing on the relationships between large and small airline companies. The analysis reveals a complex interplay between mutual benefits and inherent risks that vary significantly depending on the participating firms' size, market position, and strategic priorities.

One of the primary positive outcomes of AJVs for both large and small airlines is the ability to leverage economies of scale. Through joint ventures, airlines can reduce costs in operations, maintenance, fuel procurement, marketing, and reservation systems. Smaller airlines, in particular, benefit from access to broader route networks, enhanced brand visibility, and the operational expertise of their larger partners. Partnering with a major airline enables smaller firms to overcome significant entry barriers in markets where infrastructure development is costly and government regulations are stringent. This collaboration often translates into higher load factors, expanded customer bases, and increased market share.

Furthermore, AJVs provide an opportunity for resource optimization. By coordinating schedules, sharing airport facilities, and aligning frequent flyer programs, airlines create synergies that enhance the overall passenger experience. This collaboration improves service frequencies and network connectivity in highly competitive markets, offering passengers more options and better connections. For smaller airlines, aligning with a globally recognized brand under a JV can dramatically improve market credibility, attracting new customer segments and business partnerships that would otherwise be out of reach.

However, despite these advantages, the asymmetric nature of partnerships between large and small airlines often introduces significant risks, particularly for the smaller party. Power imbalances can result in the larger partner dictating strategic decisions, thus marginalizing the smaller airline's interests. Issues such as route prioritization, brand dilution, and profit-sharing inequalities frequently surface in such arrangements. Smaller airlines may be overly dependent on the larger partner for passenger feed and revenue streams, reducing their strategic autonomy and bargaining power in future negotiations.

Another critical downside is the potential loss of brand identity for smaller carriers. As the JV typically prioritizes brand and network integration over individual distinctions, small airlines risk larger airlines absorbing them into their corporate identities. Over time, smaller airlines' distinctive market positioning to differentiate themselves in niche markets may erode, leading to a homogenized brand image that weakens customer loyalty.

Regulatory challenges also pose considerable risks. Multiple regulatory bodies subject joint ventures, particularly those involving cross-border partnerships, to complex legal scrutiny, each with its own competition policies. These regulations can impose operational constraints on the JV, limiting flexibility and delaying strategic initiatives. For smaller airlines with limited legal and compliance resources, navigating such regulatory landscapes becomes a significant burden.

Moreover, while AJVs often promise risk-sharing benefits, they can expose smaller airlines to the operational vulnerabilities of their larger partners. For instance, if the larger airline faces financial instability, operational crises, or reputational damage, the smaller airline's fortunes are likely to suffer by association. The COVID-19 pandemic served as a critical reminder of the fragility of interdependent networks, as their partners forced many small airlines reliant on joint venture structures into bankruptcy or severe operational contractions when their partners reduced operations. Financial implications also deserve attention. Although the parties involved design joint ventures to pool resources and share profits, the distribution of economic gains is not always equitable. In many cases, larger airlines, possessing superior negotiation capabilities and financial strength, secure terms that disproportionately favor their interests.

Smaller airlines, often driven by immediate survival needs, may agree to unfavorable terms that undermine long-term sustainability.

Strategic misalignment between partners represents another notable risk. While initial agreements may outline shared goals, shifts in market dynamics, corporate strategies, or leadership changes can create divergence over time. For example, a large airline may prioritize transcontinental routes with higher profitability, whereas a smaller regional partner may rely heavily on domestic or feeder routes. This divergence can create friction in network planning and resource allocation, eventually leading to a breakdown of the partnership.

Cultural differences also contribute to potential conflicts. Organizational culture, decision-making processes, customer service philosophies, and risk appetites can differ vastly between large and small airlines, mainly when they originate from different geographical or socio-economic backgrounds. These differences can hinder the seamless integration required for joint ventures to operate efficiently and cohesively.

Given these complex dynamics, it is critical for small airlines considering AJVs with larger partners to undertake a comprehensive due diligence process. Evaluating potential partners beyond financial metrics — including cultural fit, strategic vision alignment, and governance structures — is essential. Clear contractual agreements specifying conflict resolution mechanisms, profit-sharing models, exit strategies, and brand management policies can mitigate some inherent risks.

Furthermore, regulatory bodies play a pivotal role in ensuring fair competition and protecting the interests of smaller carriers. By enforcing transparency in joint venture agreements and monitoring market impacts, regulatory authorities can help maintain a level playing field. Policies that encourage inclusive growth, foster competition, and prevent monopolistic behaviors are crucial to the sustainable evolution of airline collaborations.

In conclusion, Airline Joint Ventures between large and small airlines present a paradox of opportunity and vulnerability. While offering undeniable benefits such as

expanded market access, enhanced operational efficiency, and improved customer experiences, they also harbor dependency, brand erosion, financial inequality, and strategic misalignment risks. The key to successful AJVs lies in balanced partnerships built on mutual respect, equitable benefit sharing, transparent governance, and a shared strategic vision. Only through careful planning, continuous evaluation, and adaptive management can airlines — both large and small — harness the full potential of joint ventures while safeguarding their long-term interests in an increasingly competitive and interconnected global aviation market.

Ultimately, as globalization continues to reshape the aviation landscape, people expect the relevance of airline joint ventures to grow. New opportunities will emerge in emerging markets, digital transformation will create novel collaboration models, and evolving passenger expectations will demand even closer airline integrations. In this dynamic environment, the lessons from past experiences must guide future joint venture strategies, ensuring that both small and big airlines thrive sustainably and mutually beneficially.

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