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Knowledge Transfer and the Development of Airline business in Africa: Kenya Airways, 1977-2017

Abstract

This article examines the development of strategic alliances in the airline industry through the participation of Koninklijke Luchtvaart Maatschappij (hereafter KLM) in a joint venture with Kenya Airways (hereafter KQ). Based on the literature on knowledge transfer in international business and organization studies, the study focuses on the evolution of cooperation between both partners over time, from capital seeking to joint marketing, legitimacy, knowledge seeking, and revenue and cost sharing. In particular, it demonstrates how the features of the two firms and their boundaries affect inter-organizational knowledge transfer.

Keywords: Knowledge transfer, strategic alliance, joint ventures, foreign capital, airline industry, Kenya Airways

Transferencia de conocimientos y desarrollo del negocio de las aerolíneas en África: Kenya Airways, 1977-2017

Resumen

Este artículo examina el desarrollo de alianzas estratégicas en la industria de las aerolíneas a través de la participación de Koninklijke Luchtvaart Maatschappij (en adelante, KLM) en una empresa conjunta con Kenya Airways (en adelante, KQ). Basado en la literatura y en los análisis sobre transferencia de conocimiento en negocios y organizaciones internacionales, el estudio se enfoca en la evolución de la cooperación entre ambos socios a lo largo del tiempo, desde la búsqueda de capital hasta el marketing conjunto, la legitimidad, la búsqueda de conocimiento y la distribución de ingresos y costos. En particular, demuestra cómo las características de las dos empresas y sus límites afectan a la transferencia de conocimiento entre organizaciones.

Palabras clave: Transferencia de conocimiento; alianzas estratégicas; empresas conjuntas, capital foráneo, industria de las aerolíneas, Kenya Airways

Transferència de coneixements i desenvolupament del negoci de les aerolínies a l'Àfrica: Kenya Airways, 1977-2017

Resum

Aquest article examina el desenvolupament de les aliances estratègiques a la indústria de les aerolínies a través de la participació de Koninklijke Luchtvaart Maatschappij (KLM, d'aquí en endavant) en una empresa conjunta amb Kenya Airways (KQ, a partir d'ara). Basat en la literatura i les anàlisis sobre transferència de coneixement als negocis i organitzacions internacionals, l'estudi s'enfoca cap a l'evolució de la cooperació entre ambdós socis al llarg del temps, des de la recerca de capital fins al màrqueting conjunt, la legitimitat la recerca de coneixement i la distribució d'ingressos i costos. Particularment, l'article demostra com les característiques de les dues empreses i els seus límits afecten la transferència de coneixement entre organitzacions.

Paraules clau: Transferència de coneixement, aliances estratègiques, empreses conjuntes, capital forà, indústria de les aerolínies, Kenya Airways

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1. Introduction

Global competition between large multinational enterprises (MNEs) is a major characteristic of the airline industry, a sector as of May 22, 2020, the International Air Transport Association (IATA) listed on its website that employs 65.5 million people globally. This industry facilitates mobility of capital, goods, and people from one city to another, thus contributing to the growth and success of nations (Bowen 2002; Leinbach and Lin 1989). Over the last four decades, the airline industry has been transformed through deregulation, privatization, mergers, and acquisitions (M&As), and the emergence of hub-and-spoke networks and low-cost carriers (Kim and Singal 1993; Bailey and Williams 1988) leading to the rapid growth of MNEs.

M&As have helped these firms to buttress their market power through cost reduction to enhance their competitiveness and survival (Brueckner and Spiller 1991; Kim and Singal 1993; Merkert and Morrell 2012; Ryerson and Kim 2013). Debbage (1994) contends that in the 1990s, Iberia Airlines embarked on inorganic growth through the acquisition of Latin American airlines, and bought 30% stakes in Aerolineas Argentinas in 1990, 45% and 35% shares in Venezuelan International Airways (VIASA) and Ladeco (Chilean Airline), respectively, in 1991. This strategy foundered leaving Iberia grossly leveraged and with massive losses (Vidal 2019). According to De Man, Roijackers and De Graauw (2010), in Europe and North America, some airlines have integrated a portion of their network for specific routes through joint ventures, as did, for example, KLM and Northwest Airlines. Gudmundsson (2018) also explores case of Air France and KLM that merged in 2004 to create a group that is one of the largest European airline companies today. Moreover, the formation of global horizontal alliances such as the Star Alliance (in 1997), Oneworld (in 1999), and SkyTeam (in 2000) was a way to avoid over-competition and organize the global market.

These international organizations (MNEs and alliances) have various important objectives, including gaining global competitiveness (Fuller and Porter 1986), attaining economies of scale, and mitigating risk (Buckley and Casson 1998; Hennart 1988), increasing market share, learning new know-how, and accessing strategic resources (Kogut 1988; Inkpen 2000). Collaborations in the airline industry take many robust forms, such as joint ventures, cross-shareholding, technical cooperation, marketing, and code-sharing covenants (Beyhoff 1995). These strategic alliances result in synergy creation, enhanced profitability, service differentiation, diverging flow of people, and access to new markets (Doganis 2006; Agusdinata and De Klein 2002; Ramaswamy 2006).

However, most of the literature and empirical research focus on airlines in the United States and Europe (Esposito 2004; Evripidou 2012; De Man, Roijackers, and De Graauw 2010). Little is known about strategic alliances involving companies from emerging countries ¹, except for a few pioneering works of Debbage (1994) on Iberia in Latin America, and study on West African companies, focusing on the collapse of the multi-state carrier Air Afrique in 2002 and state-owned Ghana Airways in 2004 (Amankwah-Amoah and Debrah, 2010; Amankwah-Amoah and Debrah 2014). Vidal (2019) recently demonstrated that Iberia's successful expansion in Latin America between the 1930s and 1975 was supported by Spanish foreign policy objectives. It continued its internationalization strategy in the same region in the 1980s in a context of airline liberalization and privatization. Most of the dominant MNEs have been engaged in various kinds of alliances with airline companies from Asia, Africa, and Latin America since the 1990s. Why did they cooperate with local companies in emerging countries?

¹ “Emerging countries” is used to refer to lower-middle income and low-income classification by World Bank for simplicity purposes.

How were they able to establish themselves in these countries? What kind of spillover effect can be observed in these alliances? These issues are still unaddressed.

This article explores these issues through a case study of the collaboration between Koninklijke Luchtvaart Maatschappij (hereafter KLM) and Kenya Airways (hereafter KQ). The choice of this case was informed by two points: KQ was the first state-owned airline in Sub-Saharan Africa to be privatized and to enter an international alliance. In addition, documentary evidence on the joint venture from inception to date is available and accessible by the public. The article's focuses on knowledge transfers that accompany foreign capital. Specifically, it explores how the features of KLM, KQ, and their respective boundaries affect inter-firm knowledge transfer. It builds on the growing theoretical literature on international business by presenting empirical evidence from a horizontal alliance between an MNE and local enterprise from an emerging economy.

The remainder of the paper is structured as follows: section 1 provides a review of the literature on strategic alliances and knowledge as a source of competitive advantage, and on knowledge transfer in the airline industry. Section 2 describes the methodology adopted, and Section 3 presents the historical development of KQ from its inception to 2017. Section 4 discusses the impact of knowledge transfer from KLM on the development of KQ between 1996 and 2017 which is then followed by the conclusion.

2. Knowledge Transfer in Strategic Alliances

Two kinds of academic literature are relevant to analyze knowledge transfer within KQ after the injection of capital by KLM.

2.1. Strategic alliances and knowledge as a source of competitive advantage

Strategic alliances have been a central subject in international business literature. Traditionally, transaction cost theory (Williamson 1975 and 1985) focuses on product cost minimization, and strategic motivation theory (Porter 1985; Hamel 1991) focuses on competitive positioning of firms to explain the economic grounds of why firms come together to share complementary resources. Although these theories present convincing economic rationale, they offer a limited view into the process of skill development and knowledge-creation and -transfer, which are part of firms' core competencies (Hamel 1991, 83). Alternative explanations for the formation of alliances include a knowledge-based view (Kogut 1988; Nonaka 1991) where firms seek to learn and retain capabilities. Sveiby (1997) defines knowledge as the ability to act, and comprises skills, facts, and routines, while inter-firm knowledge transfer is a process by which firms or their agents can exchange, internalize, and be transformed by experience and knowledge from other firms (Van Wijk, Jansen and Lyles 2008).

The knowledge-based view outlines two kinds of knowledge: explicit and tacit. According to Nelson and Winter (1982), explicit knowledge can be codified and communicated through written and verbal mediums. This type of knowledge is common, easier to transfer, and replicable by competitors; hence, it does not form core competency. A firm's competitive advantage lies in its ability to integrate and use tacit difficult-to-explain knowledge in its operations (Nonaka 1991; Conner and Prahalad 1996; Argote and Ingram 2000; Tsai 2001). Knowledge is useful when there are mechanisms of transferring it from one unit of a firm to another, or between firms. Knowledge transfer is a complicated process, such that even within the boundaries of a firm, its effectiveness is influenced by several factors (Szulanski 1996). The complexity of knowledge transfer in an inter-organizational context is further compounded by knowledge characteristics such as tacit and ambiguity and organizational factors such as

corporate, cultural, and national boundaries (Easterby-Smith, Lyles and Tsang 2008; Inkpen and Tsang 2005). Moreover, the willingness to share inter-firm knowledge is determined by the embeddedness of existing organizational designs and relationships between organizations (Lin 1999). Strategic alliances are voluntary collaborations in which two or more firms pool their capabilities and resources to pursue common goals while concurrently retaining their entities and independence. Organizations enter strategic alliances to ward off new entrants (Chen and Ross, 2000), consolidate networks, minimize costs, and mitigate risks (Williamson 1991; Hennart 1988). Firms are more willing to share knowledge within strategic alliances such as equity ownership and joint venture structures than outside such a set up (Kogut 1988).

Previous studies have asserted that knowledge plays a significant role in determining organizational performance (Prahalad and Hamel 1990; Nonaka and Takeuchi 1995). Argote and Ingram (2000) argue that successful inter-firm knowledge transfer is evident when the recipient's performance improves. Competitive landscapes in industries demand that organizations constantly seek new knowledge from within or by externally tapping it from other firms (Huber 1991). Inkpen (2000) argues that a firm acquires know-how from cooperative venture partners when it deems the knowledge/skill valuable and crucial. Success of knowledge transfer is determined by several factors, including intent to learn and the magnitude of the efforts the recipient firms input (Hamel 1991, 87). Cohen and Levinthal (1990) argue that absorption capacity affects innovation and learning in a firm. They define absorption capacity as one's ability to recognize, integrate, and exploit knowledge commercially. Absorption capacity at both the individual and group levels will determine the absorption at the organizational level.

Cohen and Levinthal further suggest that organizations enhance their absorptive capacity by investing in research and development or by sending part of their workforce for advanced technical training. For instance, firms involved in international joint ventures or other strategic alliances send their staff to partner firms. Another form of alliance is equity ownership across organizations. Cross-border equity ownership gives firms greater leverage to communicate, control, monitor, and gain sticky tacit knowledge from partners than any other contractual transaction (Mowery, Oxley, and Silverman 1996). This is mainly due to the advantages that firms possess in terms of controlling their interests and involvement in the decision-making process, which are blurred in other arrangements. Mowery, Oxley, and Silverman (1996), in their study on strategic alliances and inter-firm knowledge using partner firm citations in the United States, find that equity owner relationships promote deeper levels of knowledge transfer than other forms of alliances, such as licensing or other contractual agreements.

Chang, Gong and Peng (2012) find that successful knowledge transfer is embodied in competencies of expatriate staff moderated by the subsidiaries' ability to absorb it to improve their performance. These expatriate competencies enhance knowledge transfer provided subsidiaries have superior absorptive capacity, leading to improved performance.

2.2. Knowledge Transfer in The Airline Industry

The airline industry is a globally competitive one and requires firms to internalize new knowledge and unlearn obsolete methods to stay afloat in business. When MNE airlines expand internationally, their investment comes as a package, and local partners experience varying spillover effects, such as technological and managerial know-how, depending on the relationship between the firms (Keller 1996). The existence of incumbent airlines with extensive experience in the industry and emerging nascent firms is indicative of the existing

knowledge asymmetries. This can be bridged through knowledge transfer, which is a dyadic process that involves exchange and interaction between two entities or individuals. Airlines interact through various kinds of alliances, such as joint ventures, mergers and acquisitions, and codeshare for marketing merits (Bamberger, Carlton, and Neumann 2004), with goals such as deterring competition and new entrants (Chen and Ross 2000), and efficiency rationale (Brueckner and Spiller 1991), pooling resources, and risk diversification. (Baxter 2018).

Since airlines operate in an oligopolistic market due to the high barriers of entry instituted by the government (Friedman 2014), competition from major airlines and entrenched global networks, a balance between competition and cooperation is desirable. The aviation industry is vertically integrated globally, where location and market are insignificant factors (Niosi and Zhegu 2005). Strategic alliances are complex and thus difficult to manage successfully, and some notable alliances have disintegrated, such as Swissair/Delta and Alitalia/KLM alliances due to misunderstandings between partners.

The extant literature has evaluated alliance performance in terms of resource complementarity (Das and Teng, 2000), duration of the alliance (Beamish 1987), profitability for members in the alliance (Reuer and Miller 1997), and competitiveness and learning from partners (Doz, Hamel and Prahalad 1989). Based on the study of the joint venture between Air France-KLM, Delta Air Lines, and Virgin Atlantic using Porter's Five Forces model, Baxter (2018) finds that the setup provided partners with access to new markets, synergistic benefits, comprehensive route coverage, and competitive positioning in service delivery.

Learning occurs within contexts such as organizational and external environments (Glynn, Lant and Miliken 1994). External contexts include competitors, governments, institutions of learning, and interrelationships between organizations such as partnerships, joint ventures, and

strategic alliances. The organizational context encompasses endogenous features such as strategy, culture, goals, structure, and incentives (Argote 2013). These contexts vary, and thus they either facilitate or hinder knowledge transfer. Local firms with high absorption capability can benefit from knowledge by integrating new know-how with their existing knowledge (Rogers 2004; Keller 1996). A firm's absorption capacity is determined by the human capital endowment at its disposal (Chen, Su and Tsai 2007). Knowledge is embedded in individuals, and hence transfer of tacit and advanced skills can be achieved in firms through interaction between individuals. Human capital accumulation in local firms is made possible by the labor mobility of expatriate or already trained locals into the industry (Spencer 2008; Meyer 2004; Chang, Gong and Peng 2012). This implies that the mobility of employees from one firm to another is a conduit for sharing know-how, provided there is adequate social capital. Airlines, like any other business, are in learning races, and the inherent risk is that airlines that learn faster dominate, and this may eventually lead to termination of alliance (Hamel 1991).

Fan et al (2001) outlines various types of airline cooperative relationships, including equity exchange, outsourcing of logistics, code share agreements, reciprocal frequent flyers, joint marketing entities, and exclusive membership. As local airlines integrate knowledge acquired from these cooperative relationships, there could be an improvement in their performance metrics such as operating revenues, net incomes, passenger load factors, and available seats per kilometer, which are best suited for evaluating the efficiency of the organization in utilizing its assets to generate revenue (Iatrou and Alamdari 2005). Niosi and Zhegu (2005) find that regional knowledge spillover in the aerospace is minimal and variable because of the global value chain that facilitates sourcing airplane components from overseas suppliers.

Consequently, this study contributes to the literature through the analysis of knowledge transfer from KLM to KQ since 1996. It addresses the following research questions: How did the transfer of knowledge from KLM and KQ occur? What kind of knowledge was transferred, and what role did it play in the development of KQ? Why did the knowledge transfer end up in relative failure after 2012?

3. Sources and Methodology

To answer these research questions, this study adopts an approach that merges international business, and business history. It uses the intensive and longitudinal case study method recommended by Buckley (2009). According to Yin (1994 and 2017,167), case study method is suitable for an in-depth analysis of the question of "how" in this relationship. He further argues that case study is useful for the contextual analysis of events within a time frame to better understand complex issues, to present new insights, or build on previous research. The qualitative process approach is crucial in explaining how and why events happen over a certain period (Mintzberg 1979), and in accurately locating their contexts. The scope of analysis necessitated a multi-approach data collection from three sources. First, archival data which included company reports, and presentations were collected mainly from Kenya National Archives. Second, print media data were essential in identifying events that led to changes in the dynamics of the alliance. Third, semi-structured interviews were conducted with managers of airlines who were conversant with the alliance. Accessing the primary archives of KQ was not possible, because the company does not have a corporate archive as is often the case in most of the companies from emerging countries. Therefore, oral history is a good alternative to access information (Jones and Comunale 2019). Langley (1999) observes that interviewing executives is effective in extracting insights and beneficial nuances on sensitive organizational issues that might otherwise be missed.



In total, twenty-three participants were interviewed through face-to-face meetings between 1 March and 30 April 2020, of whom thirteen work at the managerial level and ten are non-managerial staff. The interviews lasted between one- and one-half hours each. Two of the executives interviewed were representatives of KLM in the partnership arrangement and the rest were drawn from the human resource, finance, marketing, operations, customer service, and alliance departments (see Table 1). The author posed open-ended questions regarding the alliance. The participants in the study were chosen through snowball sampling, which is suitable for exploratory studies (Tayeb, 1994; Amankwah-Amoah, Ottosson and Sjögren, 2017). This sampling technique was advantageous in identifying the relevant participants familiar with the alliance. In each interview, the author began by understanding each participant's general duties in the companies, and then handwrote and transcribed all the responses. The completed interview data were analyzed using content analysis (Yin, 2003) to identify common themes, as summarized in section four.

TABLE 1. List of interviews conducted

Organization	Position, Department	Place, and Date (Duration in minutes)
1 KQ	Manager, alliance department	Nairobi, 1 March 2020 (60)
2 KQ	Assistant manager, alliance department	Nairobi, 2 March 2020 (90)
3 KQ	Commercial manager, marketing	Nairobi, 6 March 2020 (70)
4. KQ	(10) interviews (various non-managers)	Nairobi, 9 March 2020 (90)
5. KQ	Assistant manager, sales	Nairobi, 12 March 2020 (60)
6. KLM	Manager, alliance department	Nairobi, 13 March 2020 (90)
7. KLM	Coordinator, alliance department	Nairobi, 13 March 2020 (80)
8. KQ	Supervisor, alliance department	Nairobi, 15 March 2020 (60)
9. KQ	Manager, flight operations	Nairobi, 16 March 2020 (60)
10. KQ	Assistant manager, finance	Nairobi, 18 March 2020 (70)
11. KQ	Manager, personnel department	Nairobi, 3 April 2020 (75)
12. KQ	Management accountant	Nairobi, 13 April 2020 (60)
13. KQ	Supervisor, customer service	Nairobi, 24 April 2020 (70)
14. KQ	Manager, ground handling service	Nairobi, 30 April 2020 (60)

Source: Own elaboration. See text.

According to Buckley (2009), the historiographical approach puts firms' decisions in international business in the proper historical context of that period. Buckley further asserts that combining international business and business approaches enhances sequencing and contextual analysis of events. Annual reports and newspapers were analyzed in conjunction with the retrospective interviews, and this was useful for triangulation. Collection of time series data and construction of chronologically key occurrences over time related to this alliance was essential for understanding the “temporal embeddedness” of the organizations (Langley 1999; Yin 2017, 73), and the evolution process (Welch 2000).

4. Historical Development of Kenya Airways

KQ was founded as a state-owned enterprise (SOE) in 1977, as it used to be in many independent African states at that time (Amankwah-Amoah and Debrah, 2010; Amankwah-Amoah and Debrah, 2014; Irandu 2008). Its development can be divided into three main phases: formative years (1977-1995), expansion and maturity (1996-2007), and decline (2008 onwards).

4.2. State-owned company (1977-1995)

KQ was established in January 1977 as a national flag carrier after the collapse of multi-flag East African Airways that was jointly operated by Tanzania, Uganda, and Kenya. This was actuated by the existing market opportunities, increasing number of tourists visiting the country, and MNE employees who were operating from Nairobi. The Government of Kenya (hereafter GoK) keen on projecting a positive national outlook commenced KQ operations by leasing two aircrafts to operate the Nairobi-Frankfurt-London route. The initial phase was characterized by setbacks such as inadequate financial resources, incompetent technical experts, absorbing staff and assets of the defunct East African Airways, and high cost of foreign debt obligations (Debrah and Toroitich 2005; Van de Krol, 1995:32). Most of the appointees for top

management and board of directors were political proxies deficient in business acumen and expertise, thus plunging the airline into turbulence. The high turnover of chief executive officers (10) within this span had a destabilizing effect (Debrah and Toroitich 2005). For instance, the company recorded a net loss of Ksh11.53 million and Ksh1,169.7 million (currently equivalent to \$51 million and \$380 million respectively) for the FYs 1977/78 and 1980/81, respectively, and a net profit of Ksh393.814 million (currently equivalent to \$106 million) in 1982/83.²

In 1986, the GoK published Sessional Paper No. 1 titled "Economic Management for Renewed Growth," outlining measures to cede control of state corporations such as KQ in favor of private sector leadership (Kibazo 1995, 33). This was to minimize the government's involvement in entrepreneurship and curb wastage of financial resources in events of defaulting guaranteed loans and bailouts after years of perennial losses. In 1991, a policy paper on public enterprise reform and privatization was issued, and KQ was on the forefront of privatization. In FY 1991/92, the company recorded a net loss of about \$50 million (currently equivalent to \$95 million) (Kibazo 1995, 33; Financial Times 1996,15).

In 1991, Philip Ndegwa, a former governor of the Central Bank of Kenya, was appointed as the Chairman of the Board of Directors and tasked with commercialization and eventual privatization of the airline. In 1992, Brian Davies, a former general manager of British Airways, was appointed as the managing director and Malcolm Naylor as the finance director (he was a chartered accountant who had previously worked with Brymon Airways UK as the managing director). GoK contracted Speedwing Consulting (autonomous airline consulting arm of British Airways PLC) to review and recommend ways of improving airline performance and to assist in the transition process. Speedwing Consulting made recommendations such as introducing

² Kenya Airways. *Annual report, 1983/84*, 9.

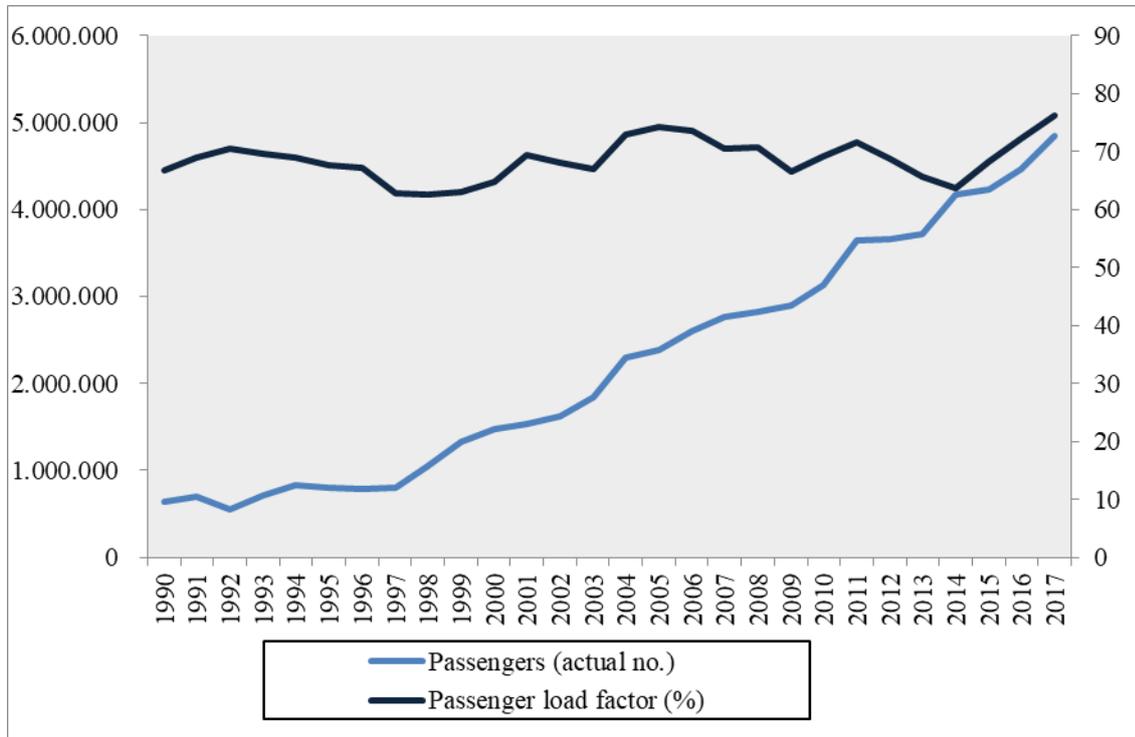
changes in financial controls, reevaluating fleet utilization, reviewing revenue per route, introducing a service standard management system, restructuring the balance sheet that involved the GoK assuming outstanding external debt obligations, converting the government's outstanding debt to equity, and redesigning the management framework with clear accountability for results to be implemented by the new management team.³ For instance, in 1993, the GoK assumed external debts amounting to \$82 million (currently equivalent to US\$151 million) and converted the US\$35 million (currently equivalent to \$65 million) loan owed by KQ to shares.⁴ This marked the beginning of the commercialization of the airline that preceded privatization. The privatization process commenced in 1995 with appointment of International Finance Corporation (IFC) as the lead adviser of GoK in privatization, evaluation of proposals from global leading and experienced airlines, and preparation of the airline for listing (Kibazo, 1995:33). Political goodwill from the government of the day played a significant role in the process (interview no. 9). The strategic partner would bring on board much needed private capital injection and skills to improve the airline's performance, as KQ's managing director Brian Davies noted:

An overseas partner will help us gain links to a global distribution system and networks. It will also assist with management expertise and help provide enhanced purchasing power when it comes to replacing our aircraft. But they in turn will receive access to a well-developed regional network in Africa and work with a viable airline. (Kibazo 1995, 33).

³ Kenya Airways. *Annual Report, 1994/95*, 14.

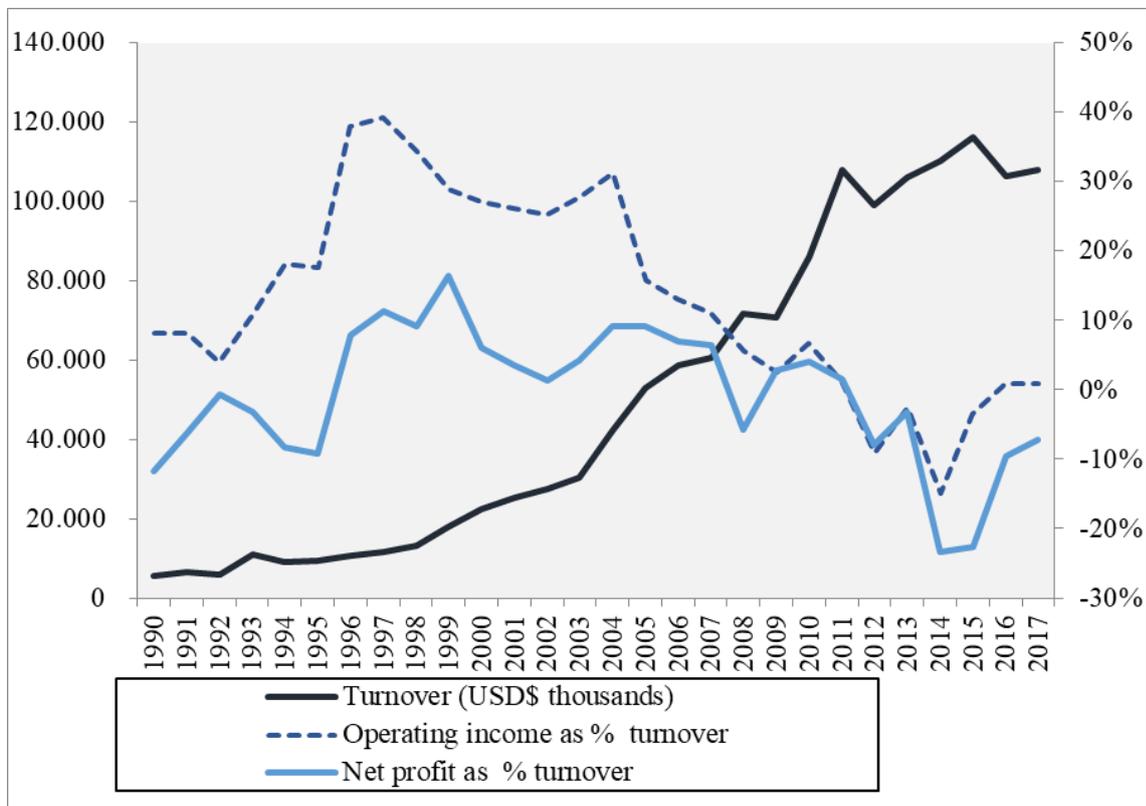
⁴ Kenya Airways. *Annual Reports, 1994/95*, 16.

FIGURE 1. Passenger traffic and passenger load factor for KQ, 1990-2017



Source: Kenya National Archives, Kenya Airways, annual reports, various years.

FIGURE 2. Key Performance Indicators for KQ, 1990-2017



Source: Kenya National Archives, Kenya Airways annual reports.

The objective of this alliance was initially global expansion and acquisition of knowledge and additional capital for KQ. In 1995, KQ served 24 international destinations, 7 in Europe, 11 in Sub-Saharan Africa, and 6 in North Africa, Asia, and the Middle East.⁵

4.2. A competitive African airline company (1996-2007)

In the competitive bidding process, KLM's proposal emerged as the best one due to its extensive experience in developing a global network through equity and marketing alliances with Northwest (United States), Garuda (Indonesia), and Air UK, among others, and its long history of operating flights from Nairobi since 1969 (interview no. 2).

KLM was initially established by private investors who convinced the Dutch government to back the firm financially based on the prospects of being the national flag carrier, connecting the country with its far East colonies. After World War II, KLM benefited from state-support in negotiating landing rights and pushing for open skies. The small size of its domestic market made it necessary to adopt a global expansion strategy. KLM consolidated its Northern routes through a series of partnerships, mergers, and acquisitions in the heavy traffic business class routes such as United States, France, Japan, United Kingdom, and in the growth markets such as China. For instance, KLM acquired a 14.9% stake in Air UK in 1988, a 20% stake in Northwest Airlines in 1991, entered into a codeshare agreement with China Southern Airlines in 1996, and merged with Air France in 2003 to form the largest carrier by revenue (Dierikx 1998, 126-154; Bouwens and Ogier 2019, 65-71; Gudmundsson 2018). The expansion in Africa was done in this global context, where it had partnered with Nigerian Airways in 1972.

⁵ Kenya Airways. *Annual Reports, 1996/97*, 20.

In 1996, KQ was privatized, and KLM acquired 26% stake for \$26 million (currently equivalent to USD44 million) including a technical assistance deal; 14% was acquired by overseas institutional investors, 14% by Kenya institutional investors, 20% was open to the Kenyan public, 3% to KQ employees, and 23% was retained by the GoK (Kibazo, 1995:33; Financial Times, 1996:15; White & Bhatia, 1998). Although KLM had a minority stake, it was the largest shareholder. It could appoint two directors to the board of KQ, nominate future candidates for Managing director and Finance director positions, and no major strategic decisions on acquisition of new fleet, route changes or disposal of GoK's equity would proceed without prior approval by KLM appointed directors.

The privatization was an opportunity for a multinational company to acquire a stake in KQ. The impact of this investment led to a new dynamic of control over the relationships between KLM, GoK and private investors to realign the operations of the privatized KQ. For example, while all board members were appointed by the government until 1995, the share of government representatives fell to 18% in 1996, the same proportion as for KLM. The remaining 64% of the board was allocated to internal managers promoted to director level and to external directors, all of whom were drawn from the business community, which includes international and Kenyan institutional investors such as pension funds and hedge funds. KLM's industry experience and presence as a strategic investor in KQ has strengthened the confidence of local institutional investors, international institutional investors, and the public in rationalizing KQ to make it commercially viable (the three categories have acquired a combined 48% stake). The objectives of the GoK were to reduce the tax burden on public enterprises, develop the private sector, and increase economic efficiency (White and Bhatia 1998). The diverse interests of stakeholders, such as institutional investors and the public, who favor long-term, high-yielding

investments, the government's need to privatize the entity, and KLM's interests in the joint venture, placed KLM in the pole position in the decision making.

March 1996 marked the successful flotation of KQ on the Nairobi Stock Exchange to raise additional capital for acquiring extra fleet to meet domestic and African regional demand. The positive financial results and the amelioration of service levels are attributed to commercialization of KQ, the management (Financial Standard 2001), and the marketing skills provided by KLM (Financial Times 1996, 15). Between 1995 and 2007, KQ experienced both a general growth of passengers and gross sales and an improvement in profitability. This expansion was backed by the acquisition of fifteen Boeing aircrafts between 1996 and 2007.⁶ It was one of Africa's most consistently profitable airlines, and the firm supported by KLM was admitted as an associate and then a full member of the SkyTeam alliance in 2007 and 2010, respectively.

4.3 Crisis and return of the state (since 2008)

The global financial crisis affected all companies regardless of the sector, and the losses recorded were beyond management's scope of control. KQ recovered from the crisis backed by increased passenger traffic of 29% from 2.8 million in 2008 to 3.5 million in 2011 (see Figure 1). In 2012, the firm launched an ambitious project *Mawingu* adding several international destinations and acquiring nine bigger Boeing fleets with high leverage. Despite the expansion and consistent surge in the number of passengers (3.7 million in 2012 to 4.8 million in 2017), the firm's performance worsened (see Figures 1 and 2) compounded by the retirement of the long-serving CEO Titus Naikuni in November 2014 (Njau 2014).

⁶ Kenya Airways. *Annual Reports, 2006/07*, 47.

Moreover, KQ lacked a consistent management at its helm. The new CEO appointed in 2014, Mbuvi Ngunze lasted for only two years and seven months. In June 2017, the Board of Directors appointed Sebastian Mikosz as the CEO (the second foreigner to hold such position) after the recruitment process was finalized by Spencer Stuart, an American global executive and leadership consulting firm. Capital restructuring in 2017 resulted in KLM's equity dilution from 26.7% to 7.8%. The GoK converted its debt to equity raising the stake from 29.8% to 48.9%. KQ Lenders Company 2017 Ltd. (a special purpose vehicle) consisting of ten local banks agreed to convert their outstanding debts amounting to about \$0.5 billion to an equity equivalent of 38.1%, and 5.2% is owned by individuals.⁷ KLM's representation in the KQ board was reduced from two to one director, and consequently lost absolute authority of approving any sale of government-held stock (Kamau 2017; interview no. 1). Renationalization of the airline signifies a major change in the business model.

5. Knowledge Transfer between KLM and KQ

The evolution of KQ over time clearly shows that the arrival of KLM in the form of foreign capital was followed by a decade of growth and profitability. However, the new strategy adopted after the global financial crisis was disastrous and led to a major withdrawal by KLM. Based on the literature on knowledge transfer in international business, two major points are discussed here: First, how knowledge contributed to improving the competitiveness of KQ; and second, why it did not prevent the firm from failing after 2012.

5.1 Knowledge transfer in 1996-2008

The strategic joint venture goals for KLM and KQ evolved from foreign capital supply/seeking to improving marketing, branding, networking, management skills, and revenue and cost

⁷ Kenya Airways. *Annual Reports, 2017/18*, 124;150.

sharing. This finding is consistent with Baxter (2018), who found that the Air France-KLM, Delta Airlines, and Virgin Atlantic joint venture delivered analogous synergetic value. At the outset of the strategic alliance in 1996, there was need for capital injection and management skills to enhance the performance of KQ. Management ineffectiveness and the incompetence of staff, especially those hired through political patronage, adversely affected the firm's performance. Human capital accumulation in the local firm is possible when there is labor mobility of expatriate or already-trained locals into the industry because tacit knowledge resides in individuals (Spencer 2008; Meyer 2004). Moreover, MNEs dispatch their expatriate personnel to partner firms based on technical skills rather than their competencies in knowledge transfer (Chang, Gong and Peng 2012).

The two organizations transferred some experienced staff from KLM to KQ to provide technical assistance as part of the joint venture deal. This started with the consolidation of the KQ and KLM sales office in Nairobi, a complete overhaul, and the standardization of the reservation system. KQ switched from their Gabriel reservation system in favor of the KLM reservation system, CORDA, which could link seat inventory and the revenue management system to provide yield-based capacity distribution and to ensure that different market segments are allocated capacity relative to the agreed-upon pricing structures (interview no. 7). This improved the firm's efficiency and better served joint customers. Moreover, the experienced personnel from KLM trained their counterparts in areas such as customer service, cabin service, and engineering to ensure that service levels were standardized (interview no. 14). Personnel from KQ were sent for further training to KLM facilities in the Netherlands. Ownership changes and employee training saw the organization's performance metrics, such as turnover, operating profit, and net profit margin, improved from 1996 onwards. This confirms the findings of

Argote and Ingram (2000) and Iatrou and Alamdari (2005), who argue that knowledge transfer is evident when the performance of the recipient firms improves.

Moreover, the presence of two representatives of KLM in the KQ Board of Directors with powerful influence on strategic decisions, such as the acquisition and disposal of fleets as per the joint venture agreement meant that crucial decisions could not proceed without their unanimous approval. These directors held senior positions such as managing director, chief finance officer, and executive vice president in KLM and had extensive experience in purchasing, evaluation of route capacity, and expansion requirements. These skills were gradually transferred to local directors as KQ expanded its fleet from eight in 1996 to twenty-eight in 2008 (interview no. 6). Although KLM had been operating flights from Nairobi since 1969, it was facing the liability of foreignness and different institutional environments in other African markets. The Alliance committee that comprised personnel from both airlines deliberated on issues such as co-branding and market intelligence to assist KLM and KQ to gain legitimacy and expand their footprint in Africa and Europe, respectively (interview no. 7).

At the initial stages of a joint venture, idiosyncratic inter-firm factors (willingness to share knowledge, trust, collaboration structure, and organizational culture) determined the extent and type of knowledge transferred (interviews no. 1, 8, and 13). Collaboration involving equity offers opportunities for knowledge transfer (Mowery, Oxley and Silverman 1996; Fan et al 2001) because of mutual trust, although cultural differences must be bridged to ensure that willingness to share knowledge translates to successful knowledge transfer.

5.2. Knowledge Transfer since 2008

KQ established strong internal structures buttressed by knowledge gained from the collaboration. A major challenge faced by the firm was the volatility of fuel prices and foreign

currencies. The escalating cost of fuel accounted for 27% of total expenditure in 2008 (interviews no. 10 and 12). To mitigate this risk, the finance team implemented fuel hedging as part of the supply chain management skill acquired (interview no. 10). In 2012, the company embarked on an ambitious expansion plan by proposing the purchase of nine larger, modern fleets. The purchasing decision was approved by two representatives of the KLM and KQ board of directors, although this investment turned out to be disastrous because the company booked loss in that financial year (interview no. 8). This decision raised questions from GoK about the motives and interests of KLM resulting in discontentment and distrust in the joint venture, with the top KQ management calling for amendment of the joint venture agreement to curb KLM's extensive powers in decision-making (interview no. 10). KLM helped KQ to improve its organization and operations during the first phase of cooperation, but had a negative impact on the long-term development of the company due to the strategic choice made in 2012.

However, this strategic decision was not the only problem within the joint venture. Three distinct features (absorption capability, quality of employees, and organization design) of KQ were identified as key hindrances to effective knowledge transfer. Persistence of neopatrimonialism meant that employees with basic qualifications and low absorption capacity struggled to internalize and make use of knowledge from expatriates, trainings, and seminars, while the top-down approach created distance in knowledge transfer between Kenyan employees in the firm and boundaries in communicating issues such as feedback from customers and lessons from past accidents (interview no. 4). Furthermore, the novelty of technology, quality of expatriates, and motivation to teach on the KLM side also affected knowledge transfer. KLM hardly transferred novel proprietary technology to its partners and had higher incentives to retain this within the firm before transferring it to partners (interview no. 14).

Learning and exchange of industry information occurs via the alliance committee meetings, whose motivation is to enhance mutual benefits. Although very knowledgeable, some experienced expatriates lacked demonstration skills, and communication failure emerged between the firms (interview no. 11). Finally, the negative effects of the power imbalance within the company should be noted. For example, in the context of asymmetric ticket sales, KLM is KQ's agent in Europe, but KQ is not granted the same status in the African market, resulting in low load factors and traffic (interview no. 3). Frosty relations between the partners also caused a mass exodus of engineers and pilots to competitor Middle East airlines since 2015. In addition, revocation of the existing costly contracts with suppliers and brokers was met with resistance for obvious reasons (interview no. 14). Distrust and resentment between partners, coupled with internal sabotage by staff, dissipated the gains from knowledge transfer, leading to poor organizational performance.

KLM's influence was massively diluted, as previously discussed, but the collaboration was maintained because it was deemed profitable in areas such as route network connections and marketing. In 2015, KQ forged new partnerships for corporate training with General Electric (GE) to enhance leadership skills and is also collaborating with local universities (Jomo Kenyatta University of Agriculture and Technology and Technical University of Kenya) to improve the operational training of the airline's personnel and to prepare local talents for industry jobs (interview no. 11). Hence, the need to cooperate with KLM for general management knowledge was no longer felt.

6. Conclusion

This study explored the strategic joint venture between KLM and KQ and how the features of the two organizations and their boundaries affected inter-firm knowledge transfer between 1996

and 2017. The analysis suggests that strategic joint venture goals varied from foreign capital seeking to marketing, branding, networking, management skills, and revenue and cost-sharing goals. Moreover, the participation of KLM in the joint venture from 1996 to 2007 coincides with improvement in profitability and passenger load factors. The author does not contend that knowledge transfer was the only factor that contributed to improving the performance of KQ, but it certainly had a significant positive impact on the company's performance metrics. The collaborative structure of equity ownership in the alliance initially brought a high degree of trust and created a safe space, as evidenced by the transfer of experienced staff from KLM to KQ, to train their counterparts in areas such as marketing, branding, and customer service. This led to improved turnover and passenger traffic.

Knowledge flow was bidirectional in terms of understanding the diverse operational contexts of the two firms. KLM assisted KQ in stretching their foothold in Europe, while the latter was resourceful in providing the former with institutional knowledge of the African markets. Moreover, the two organizations initially enhanced interactions between employees to understand diverse corporate cultures, because knowledge is embedded in corporate culture, and transferring it to different contexts could make it obsolete. Using strategic alliance as the idiosyncratic context of knowledge transfer, this research has shown how specific factors within the boundaries of organizations and inter-firm factors combined to facilitate or hinder effective knowledge sharing. Despite the initial improved performance of KQ, the results later deteriorated due to distrust between the partners, internal sabotage by staff, and litigations that provided a hostile milieu for sustaining sound financial performance.

The contribution of this research to theory stems from exploring why a joint venture exists between KLM and KQ. Although many researchers recognize the salience of strategic alliances,

this study deviated from the extant literature, which has concentrated on firms from advanced economies. It provided empirical evidence of how features of a multinational airline (KLM), a company from an emerging country (KQ), and their boundaries affected knowledge transfer. Furthermore, the features of the two firms and the inter-organizational factors emerged directly from the experiences of the companies' staff, which marks the originality of the research. Future research will be conducted on other cases of alliances between Western MNEs and African firms to further our understanding of the role (and limits) of knowledge transfer in the growth of companies from developing countries.

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