STRATEGIC ISSUES AFFECTING AIRLINES: A CASE STUDY OF KENYA AIRWAYS

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UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

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A Project Proposal Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirements for the Masters in Business Administration (MBA).

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SUMMER 2014
STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University Africa in Nairobi for academic credit.

Signed: __________________________  Date: __________________________

Margaret Wanjiku Kairu (ID 625986)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: __________________________  Date: __________________________

Dr. Zachary M. Mosoti, PhD.

Signed: __________________________  Date: __________________________

Dean, Chandaria School of Business
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ABSTRACT

The purpose of this study was to determine the strategic issues that affect airlines, a case study of Kenya Airways. Specifically the study sought to: identify the strategic issues that affect Kenya Airways, to analyze the challenges in addressing the strategic issues that affect the airline and to identify the measures that can be put in place to mitigate the issues that affect Kenya Airways.

A descriptive survey research design was employed in this study. This approach is appropriate because it will help in obtaining in-depth information on the management’s opinions on the strategic issues that affect the airline.

In order to ensure fair representation and generalization of the findings to the population, stratified random sampling was used to select the sample elements from the selected population elements. The primary data was collected through the use of structured questionnaires were delivered personally to the respondents. Data analysis was accomplished through using the Statistical Package for Social Sciences. The descriptive statistics technique was applied and the data was presented in the form of figures, tables and charts.

In accordance to the research findings, it was concluded that there are strategic issues that affect the airline. In addition, it was revealed that these strategic issues that is, competition, customers, cost and safety and security were major strategic issues that affect the airline to a great extent. Safety and security was considered as the main concern by a majority of the respondents.

The study also concluded that indeed, challenges in addressing the strategic issues that affected the airline were present. It was pointed out that restrictions in the airline service markets together with the high value added tax on acquired aircrafts and lack of adequate government support were the main obstacles to the airline in dealing with the strategic issues.

Regarding the third research objective on identifying the measures that can be put in place to mitigate the strategic issues that affect Kenya Airways, the study revealed that indeed, there were. It was established that measures such as; joining alliances, hedging of the fuel
costs and obtaining the right type of aircraft were indicated as some of the viable measures that can be used as successful measures towards the mitigation of the strategic issues affecting the airline.

The study recommended that the appropriate strategies be applied by the airline to counter the various strategic issues affecting the airline. In addition, it was recommended that the proper policies and practices, such as; lobbying at parliament be implemented to ensure that any other challenges that may arise in the future can be dealt with effectively.
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Last but not least, to my family and friends, I appreciate your love and support throughout this journey.
DEDICATION

I dedicate this project report to my lovely parents and sister. To my father, you are a true blessing. You guided me, opened my mind to new ideas, encouraged me to think outside the box and ensured that I stayed committed to what I was doing. Thank you.

To my mother, the best woman I have ever known, everlasting thanks. You gave me hope, support, encouragement, unconditional love and stood by me throughout the completion of this report. I truly appreciate.

To my sister, for planting, watering and watching the seed grow to maturity. You gave me hope, support and guidance needed to complete this journey. Thank you.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

Strategy is the science and art of developing and employing all the resources of a company in such a way as to guarantee the most profitable, long-term survival. It requires a combination of intelligence and intuition, rationality and emotion, will and analysis and the ability to deploy people to put it all into action (Simon, 2008). The airline business is concerned with moving goods from one location to another and the manufacturing aspect of the aircrafts and navigation systems (Air Transport Action Group, 2005).

Before the mid-1980s, the airline industry was highly regulated and mainly dominated by international airlines that were either fully or majority-owned by their respective national governments. This was as a result of the governments’ being aware that this means of transport, that is, air transport would be of key importance for both economic and social development as well as for trade (Doganis, 2006). To emphasize its sovereignty (Hanlon, 2007); each state designated one airline, the country’s ‘flag carrier’, to operate flights on bilateral routes between those countries with which air traffic rights had been exchanged. The privatization of nation-owned airlines in the later mid-1980s was aided by the liberalization of traffic rights and regulations. In the present day, most airlines are either fully or partially privatized, or are in the process of being privatized (Doganis, 2006).

Important to note is that, a great number of previously government-owned carriers continue to observe their historical heritage in their names and in the colors of their corporate design for example, Kenya Airways, British Airways and Air France to mention but a few. Whereas the liberalization within the airline industry at first spurred the privatization of airlines, it also triggered the entry of new airlines in the market. Confronted with increasing competition and, at the same time, decreasing government subsidies traditional carriers were forced to desert old market practices and become more competitive and customer-oriented (Doganis, 2006).

Low-cost, low fare airlines began entering the market at the end of the 1990s, posing yet another challenge to the traditional airlines due to the alteration of the competitive scene. This resulted in the traditional carriers having to re-strategize and increase their flexibility.
so as to have the ability to become accustomed to the changes in the market place. A main characteristic of the airline industry is that of, strict regulations which have been holding them back from becoming true global players unlike other industries which pave the way for their firms. The notion that was held until recently was that, airlines should be considerably held by the nationals of a given country in which the airline is registered, and it prevented the development of airlines into global businesses due to the obstruction of cross-border merger and acquisition activities (Hanlon, 2007; Doganis, 2006; Shaw, 2007). Thus; to have the ability to operate on a global scale, airlines formed alliances which had the aim of enabling better economies of scale for the carriers in every aspect of the business.

While the 1990s witnessed outright alliance-building frenzy, three major alliances, namely Star Alliance, Oneworld, and SkyTeam, now dominate the competitive landscape (Doganis, 2006). Shaw (2007) asserts that the formation of alliances was not a means in itself; rather, it was an indispensable ‘detour’, since cross-border consolidation activities continue to be restricted by regulations. Moreover, Hanlon (2007) argues that the existing airline alliances may prove to be precursors to actual cross-border mergers, considering that government-imposed constraints and regulations on foreign ownership are progressively being relaxed.

Kenya Airways joined the Sky Team alliance; an alliance with global coverage on September 2007, as an associate airline. This alliance was formed on June, 22 2000 by Korean Air, AeroMexico, Delta Airlines and Air France. It has over 15723 daily flights to 1064 destinations in 178 countries. Therefore, it offers more destinations and more connections to and from the best hubs in the world (SkyTeam, 2014).

Some of the benefits the national carrier receives from being a member the Sky Team is that for particular routes or markets that Kenya Airways does not fly to, they still have the ability to offer their customers extended network benefits. The company is also able to share the best practices on for instance, the information technology systems. The other advantages include; the consolidation of costs, joint purchasing and co-locations at airports. An example of a co-location is the joint check-in and lounge at London Heathrow T4 (SkyTeam, 2014).
Dynamic economic conditions and variety in the economies of the world’s regions has propagated the improvement of the global travel over the past three decades. The gross domestic product rate of growth is less than the world’s travel improvement rate, in the midst of a slow pace of economic growth; people will still continue to fly to their preferred destinations leading to a continued positive progression in the world’s air travel (Massachusetts Institute of Technology, 2013).

In this study I intend to focus on our national airline. Kenya Airways Limited “The Pride of Africa” which is the third largest airline in Sub-Saharan Africa. Kenya Airways began its operations on 4th February 1977 and it flies to over 53 destinations worldwide with its main base at the Jomo Kenyatta International Airport, Nairobi and it carries over three million passengers annually. The “Pride of Africa” was established after the break-up of the East African Community and consequent demise of the East African Airways. Until April 1996, Kenya Airways was fully owned by the government. The company’s shares were first floated on the Nairobi Stock Exchange in 1996 to the public. In addition, the company has also cross-listed its shares on the Dar-es-Salaam Stock Exchange in 2004 (Institute of Developing Economies Japan External Trade Organization, 2008).

Firms with a primary strategic goal of long term progress, development as well as success must seek ways to build some kind of competitive advantage (Lee et al., 2009). Therefore, Kenya Airways being a firm that strives to be a considered as a global airline, joined and is a full member of the Sky team. It is continuously adding new routes most recently eyeing to increase its presence in Kenya and Africa by moving into Lamu, Eldoret, Kilimanjaro in Tanzania, Malakal in South Sudan, Mauritius and Cape Town. Also in the pipeline is Beirut in Lebanon besides the recently opened direct flights to New Delhi (Maina, 2012) and the airline is also code sharing with sixteen other airlines in various parts of the world and as of 2010, Jet airways of India and Qantas of Australia. (Alliances, 2013).

The environment in which a business operates is vital in determining how it will perform and the strategy it will employ (Pearce and Robinson, 2005). Kenya Airways is facing stiff competition while operating in a growth market which refers to a rapidly expanding market. In addition, according to Gatonye (2011), the national carrier experiences the impact of the volatile global fuel prices and as a result the performance of the company is affected. This is because, fuel cost accounts for approximately 30% of the industry’s
operating costs from 13% a decade ago. This situation indicates the sensitivity of the airline industry to any spikes in oil prices. Given that at least 20% of Kenya Airways’ revenues are generated from Europe, the Eurozone crisis poses a threat to the industry profitability (Mwaniki, 2013).

1.2 Statement of the Problem
Within the past few decades, the business environment has changed in fundamental ways (Harrison, 2003). The current business environment is turbulent in nature, the airline sector is faced with challenges that make it increasingly difficult for their operations to continue at profitable level and maintain the high standards of service. The challenges to mention but a few include: majority of the revenue generated by Kenya airways is in Kenya Shillings, which is a weak currency, while a significant portion of costs are billed in United States Dollars and the Euro and the prices of fuel are at premium amount, (Munesti, 2012) hence high costs of operations; the cost of living has been steadily rising while many peoples’ income have remained constant, therefore resulting in a decrease in both current and potential passenger demand; and terrorism is also another hurdle that is having a negative ripple effect on the National airline since fewer foreigners will be arriving into the country.

Kenya Airways is a company that is operating in a very challenging environment, against competitors with much more capital such as the ‘Gulf three’ that is; Etihad Airlines, Emirates and Qatar Airways who most recently bought commercial planes worth over $150 Billion (Quest, 2013) unlike Kenya Airways who have to take a loan and in addition offer a rights issue to its shareholders and other investors so as to able to buy some Dreamliners in order to expand its fleet. Airlines such as American and United States Airways which have merged to form the biggest airline in the world in a market, that is, The United States of America, that Kenya Airways wants to enter into in the near future with less economies of scale to mention but a few obstacles in their path.

Although there have been several studies concerning the subject of strategic issues that affecting airlines on a global scale in the American, Asian, European and Latin airlines and their relevance to the to the management in the decision making and running of the companies, few studies have attempted to determine the relevance of the issues on African airlines. This research analyzed the strategic issues that affect Kenya Airways and how they impact the company.
1.3 **General Objective of the Study**
The general objective of this study was to investigate the strategic issues affecting airlines; a case study of Kenya Airways.

1.4 **Specific Objectives of the Study**
The study was guided by the following specific objectives:

1.4.1 To determine the strategic issues affecting Kenya Airways.
1.4.2 To analyze the challenges in addressing the strategic issues affecting Kenya Airways.
1.4.3 To identify measures that can be put in place to mitigate strategic issues affecting Kenya Airways.

1.5 **Significance of the Study**

1.5.1 **Management of Kenya Airways**
Management will be able to formulate and implement policies that would better the company. The study will also benefit strategic managers in other industries. The policy makers will be able to gain more insight on the decision making processes that affected the organization. In addition, the study will help in improving the working conditions so as to be able to create more efficiencies that will in turn, result in a better performance of the company.

1.5.2 **Existing and Potential Investors**
This study will benefit both individual and institutional investors. They will have a solid basis on which to build up and when venturing into Kenya Airways.

1.5.3 **Academicians and Learning Institutions**
The findings of this study will enrich existing knowledge and hence will be of interest to both researchers and academicians who seek to explore and carry out further investigations. It will provide basis for further research.

1.6 **Scope of the Study**
The scope of this study was in Nairobi, Kenya Airways. The employees of the airline who worked at the Nairobi head-office were the population of the study. The data collection period for this study was in June 2014.
The key limitation of the study was the time-frame allocated was short. The study relied upon the cooperation of the airline’s staff since first-hand information was necessary, hence encouragement of participation was a major issue.

1.7 Definition of Terms

1.7.1 Strategy

Strategy is the science and art of developing and employing all the resources of a company in such a way as to guarantee the most profitable, long-term survival (Simon, 2008)

1.7.2 Strategic Management

Strategic Management can be defined as a set of decisions and actions that result in the formulation and implementation of plans designated to achieve a company’s objectives (Simon, 2008).

1.7.3 Code Share

Code share refers to a commercial agreement between two airlines that allows passengers to use a ticket from one airline to travel on another (SkyTeam, 2014)

1.8 Chapter Summary

This chapter discussed the background of the problem, statement of the problem, general objective of the study, specific objectives of the study, significance of the study, scope of the study and definition of terms.

This introductory chapter presented the background of the study, described the problem in the context of the organization, that is, Kenya Airways, the third section outlined the major objective of this research and the fourth section described the importance of the study. The next issue presented was, the objectives of the research paper, and finally the last section provided the working definitions of specific terms. The next chapter deals with the literature review to establish authority in the study. Chapter three will deal with the research methodology that will be applied to this particular study while chapter four will report on the results and findings. Chapter five will include the discussion, conclusion and recommendation which will be based on the findings.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

The general objective of this study is to investigate the strategic issues that affect Kenya Airways, the challenges present in addressing the strategic issues that affect the airline and the measures that can be put in place to mitigate the strategic issues that affect the national carrier. This chapter is focused on a discussion of the literary works of various scholars that are found to be related to the topic and are considered to be helpful in addressing the research questions. The literature will be reviewed to identify the loopholes in the existing literature that can be addressed during the course of the research, majorly, using the results from the primary research and addressing the problems. Furthermore the gaps identified during the literature review will also be highlighted in the last chapter that would help other researchers to select the topics for their research.

2.2 Strategic Issues that Affect Kenya Airways

2.2.1 Competition Issues in the Airline Industry

2.2.1.1 Impact of the Aviation Industry

The airplane is an invention that has had a major impact on peoples’ lives and experiences in the world. During both World Wars, government subsidies and demands for new airplanes vastly improved techniques for their design and construction. Following the World War II, the first commercial airplane routes were set up in Europe. Over time, air travel has become so commonplace that it would be hard to imagine life without it. The airline industry, therefore, certainly has progressed. It has also altered the way in which people live and conduct business by shortening travel time and altering our concept of distance, making it possible for us to visit and conduct business in places once considered remote (Wells, 1984).

There is a demonstrable positive relationship between the overall use of air transport and levels of income, urbanization, industrialization, education and leisure time and yet the relationship is multifaceted, complex and far and far from being a one way process. The
speed of air travel can improve welfare by, for example, providing access to medical
services, perishable produce and mail and employment opportunities may be widened by
speed of travel and mobility. The recreational benefits are clearly demonstrated by the
continuous growth of mass tourist travel and family visits to ever more distant places
(Wells, 1984).

2.2.1.2 Competitive Environment
The environment in strategy means everything and everyone outside the organization;
that is, competitors, customers, suppliers plus other influential institutions such as local
and national governments. It is imperative to study the environment surrounding the
organization for three main reasons. “First, most organizations compete against others,
hence the study of the environment will provide information on the nature of the
competition as a step to developing a sustainable competitive advantage. The term
sustainable competitive advantage refers to an advantage over competitors that cannot
easily be imitated. Second, most organizations will perceive opportunities that might be
explored and threats that need to be contained. Such opportunities and threats may come
not just from competitors but also from government decisions, changes in technology and
social developments and many other factors. Third, there are opportunities for networks
and other linkages, which lead to sustainable co-operation” (Lynch, 2009).

The competitive environment consists of many factors that are particularly relevant to a
firm’s strategy. These include both existing and potential competitors, customers and
suppliers (Dess, Lumpkin, and Eisner, 2008). The industry in which airlines exist is
extremely competitive. Industry-wide shakedowns which have a tendency to have far
reaching ramifications on the overall industry direction towards expanding domestic and
international services have been a common occurrence in recent years. In the past, the
airline industry was at least partly government owned and is still true in many countries,
but all major carriers in the United States are now privately owned (Air Transport Action
Group, 2005).

The intercontinental market is increasingly competitive. Ethiopian Airlines which has
been among the best carriers in the continent during the last sixty years of its existence in
terms of efficiency and operational success, in addition to making consistent profits
(Institute of Developing Economies Japan External Trade Organization, 2008) is Kenya
Airways’ main competitor. The Ethiopian Airlines is expanding aggressively and it
possesses a strong network across Africa. In December 2011, it joined the Star alliance which gives them an advantage when it comes to having access to a considerable intercontinental network and traffic feed, benefits Kenya Airways has been enjoying as a member of the Skyteam alliance (Aviation, 2012).

The Asian and Chinese markets are important to Kenya Airways’ strategic expansion plan and Ethiopian Airlines is ahead of them into venturing into these markets. Beijing and Guangzhou through New Delhi, India and Hangzhou via Bangkok are mainland Chinese destinations that Ethiopian Airlines has been operating since mid-2012 in an effort to strengthen its Africa-Asia operations as it received its first Boeing 787s. The rival carrier has its sights set on more routes in China, plus Malaysia and Singapore. Africa has been projected by Airbus as being the highest market of proportional growth into Asia Pacific with a growth rate of 8.4% which eclipses the 7.5% intra-Asia Pacific rate (Aviation, 2012).

2.2.2 Customer Issues that Affect the Airline Industry

In the world today, the airline industry is one of the most dynamic (Kernchen, 2004). Factors such as; empowered customers, new distribution channels together with a strong inclination toward the disintermediation and re-intermediation regularly forces airlines to improve and take up their business and operational models (Kossmann 2006). Today’s customers are more knowledgeable which is as a result of advances in the Information, Communication and Technology field and are now more experienced in striving for individual product and services (Buhalis and Law, 2008).

2.2.2.1 Demand for Air Travel

‘There are three major factors that affect passenger demands, and they are; incomes, fares and service levels. One view of the relative importance of these factors is given in Figure 2.1. The concept of elasticity refers to the responsiveness of quantity demanded, for example, the number of passengers, to a change in any one of the factors affecting demand. Some broad estimates of aggregate elasticity imply that demand is highly elastic with respect to income, rather less elastic with respect to price, that is, fares and relatively inelastic with respect to service levels” (Hanlon, 2007).
2.2.3 Cost Issues that Affect Airlines

Civil aviation has grown intensely over the past fifty years. The rate of technological change has been outstanding resulting in a decrease in costs and prices, which in turn has stimulated a rapid growing demand for their services. A paradox exists as highlighted by Eller and Moreira (2013) which is that although many sectors in business experience a gradual and fast growth in demand of their products or services, and as a result have a substantial increase in their profits; airlines experience the opposite and generally have low profits.

The deregulation process of markets and increasing opportunities for competition have created excess capacity in many markets that cause lower rates, even with its rising costs. To garner a competitive advantage over rivals it is essential that proper strategic cost management together with the appropriate response and behavior by the airlines under different influences is done (Eller and Moreira, 2013).
The airline industry is a market based industry and the application of cost reduction as a strategy is vital in remaining competitive when in the midst of decreasing prices. An important characteristic of this industry is being dynamic. Therefore, an apparent understanding of the costs concerned and their determinants are essential in decision making (Eller and Moreira, 2013).

More than other industries, the airline industry is impacted by numerous factors beyond its control to a great extent. Additionally, factors such as the cost of oil and security concerns are essential to their operations and thus in terms of operational effectiveness and risk management has a huge impact. Government intervention, oil prices, airport and other charges, quality of infrastructure, political and socio-cultural events, natural disasters or health emergencies, which affect the financial health of the industry, lie outside the control of airline executives (Heracleous, Wirtz and Pangarkar, 2009).

2.2.3.1 Cost Structures of Airlines

Broadly, airline operating costs fall into three categories: *variable direct operating costs, fixed direct operating costs and indirect operating costs*. Variable direct operating costs are activity- (flight) related and are escapable in the short term if the airlines reduce its flights. These include fuel costs, variable flight crew costs such as allowances, direct engineering costs (which are related to the number of flying cycles or hours) airport and en-route charges and passenger service costs such as meals. Fixed direct operating costs are fleet-size-related and are escapable in the medium if the airline reduces its overall capacity. They include aircraft depreciation or rental, annual flight and cabin crew costs (fixed salaries), engineering overheads (such as fixed engineering costs unrelated to aircraft utilization). Indirect operating costs are route- (product) related and are escapable in the medium or long term if the airlines aim to enhance efficiency and they include; station and ground expenses, passenger services (such as passenger service staff and passenger insurance), ticketing sales, promotion costs and general and administrative costs (Heracleous, Wirtz, and Pangarkar, 2009).

While the cost structures vary across airlines, each is impacted by several common issues. Operating costs vary by the route structure due to significant variation in the local charges such as; landing, parking, en-route charges and costs such as jet fuel. Operating costs decline with longer stage length, providing a cost advantage to airlines that focus on long-haul routes. The four largest categories of costs include labor, fuel, aircraft acquisition,
and maintenance and repair. In developed countries, labor costs constitute the biggest proportion of costs, often amounting to as much as 35%. Airlines from developing countries enjoy an advantage in this respect since their wages and social costs are lower. Further a significant portion (75% by some estimates) of an airline’s costs are ‘fixed’, that is, independent of whether a particular flight is operated or not on a given day or the number of passengers in a particular flight. In other words, the marginal cost of carrying an additional passenger is very low, which has strong implications for the variability of net revenues of airlines; a small increase in load factor can lead to a disproportionate increase in profitability (Heracleous, Wirtz, and Pangarkar, 2009).

2.2.3.3 Factors Affecting Airline Operating Costs

One of the most crucial factors affecting airline operating costs is the average stage length over which it flies its aircraft. Other things being equal, the longer the stage length the lower the cost per unit. Unit cost declines rapidly as stage length increases because many of the costs in operating a flight are incurred in take-off, landing, climb, and descent. Also higher block speeds and better fuel economy are achieved on longer sectors. The L-shaped relationship between unit cost and stage length is a fundamental characteristic of airline economics and airlines with the lowest costs per seat mile, or cost per tonne kilometer are those operating large aircraft over long stages (Hanlon, 2007).

Allowing for stage length it has been clear that full-service airlines in Europe have relatively high costs. This was one of the problems identified by the Committee of Experts (1994). The Committee found European airlines’ operating costs to be between forty per cent and fifty per cent higher than those of comparable airlines in the North America and Far East. It was widely believed that costs associated with employment were largely responsible for this (IATA, 2013).

According to Heracleous, Wirtz and Pangarkar (2009) oil is one of the most important inputs for any airline. It is a globally traded commodity, whose price is determined by market forces of demand and supply. The oil price is also denominated in US Dollars, while many international airlines earn a substantial percentage of their revenues in local currencies. Consequently, many international airlines incur a significant element of foreign exchange risk.
Fuel costs are 30% of the industry’s operating costs from 13% a decade ago. This situation shows the sensitivity of the airline industry to any spikes in oil prices (Mwaniki, 2013). For the airline industry as well, according to (Heracleous, Wirtz and Pangarkar, 2009), fuel accounted for 30% of airlines’ operating costs in 2007, and the figure is rising. This figure was higher for operationally efficient airlines and airlines with older fleets. The unpredictability and fast rise in fuel prices since 2003 significantly affects airline performance. United Airlines, for instance, incurred a $75 million operating loss for April 2004 due to abnormally high fuel prices, which constituted its second largest category of expenses, behind labor. In addition, Southwest Airlines, an efficiently managed and well-performing airline, was also forced in 2004 to offer buyout packages to its non-executive employees as a belt-tightening measure in partial response to high oil prices.

Fuel costs also exhibit marked variation between airlines, not only because of factors such as stage length but also on account of transporting fuel to the airline’s major airport and the local rates at which taxes are levied on it. For some airlines, fuel can be the largest single item of cost, an extreme example being Indian Airlines, a carrier which has to pay both federal and state government taxes on its purchase of fuel and for which fuel can represent over forty percent of operating cost. All airlines have to pay substantially more than they did in the past, as a result of some very sharp increases in international prices for fuel. This ends up having an effect of inflating the airlines’ total bill, both in absolute terms and as a proportion of operating costs. The need to economize on fuel has never been greater (Hanlon, 2007).

Governments and local airports also impose charges on airlines such as; landing and aircraft parking fees, which sometimes diverge from market-based prices. Airlines must take these fees and prices as given, with little possibility of negotiation, if they want to fly to and from a specific airport (Heracleous, Wirtz and Pangarkar, 2009).

2.2.4 Safety and Security Issues

2.2.4.1 Airline Safety
The continent has the weakest safety performance in the world by a considerable margin (IATA, 2013). The region’s hull-loss rate is more than six times greater than those in Asia and Latin America and more than twelve times higher than the Europe and North America regions. If African countries applied bilateral sanctions against carriers that fail
to meet safety standards established by the International Civil Aviation Organization, the probability for reducing this accident rate would improve (Worldbank, 2011).

In 2005, Kenya Airways achieved the rigorous safety certification IOSA (IATA operation safety audit) and they were the first to do so in Africa. African airlines on the IOSA registry did not have a single accident in 2012. The carriers on this registry are performing at or above the industry average rates (Institute of Developing Economies Japan External Trade Organization, 2008).

2.2.4.2 Security
Terrorism remains the most ubiquitous form of political violence in the modern world. More than half the world’s countries are directly affected every year, either by domestic or international terrorist violence or both (Wilkinson, 1999). Airlines are also impacted by political, terrorist and other events that might influence travel and tourism (Heracleous, Wirtz and Pangarkar, 2009). The threat to commercial aviation is no longer new. The basic modes of attack have not changed for years. The first terrorist hijacking for political extortion was occurred in July 1968; the first terrorist bombing in mid-air of an airliner took place in May 1949, the first armed assault on an airliner on the ground occurred in June, 1968, and the first indiscriminate armed assault on passengers at an airport happened in May 1972 (Merari, 1999).

2.3 Challenges in Addressing Issues Affecting Kenya Airways
This section covers the challenges in addressing the issues affecting airways.

2.3.1 Competitive Environment in Africa
Mozambique, Ghana and Rwanda are among the fastest growing economies in Africa according to the World Bank in 2013. Many other African countries are heading there, that is, they are not far along. The continent’s general economic growth was forecasted to be at 5.6% for the year 2013 with a third of the countries achieving a 6% growth or more (IATA, 2013). In 2013, Kenya had an estimated economic growth of 4.9% and it is projected to increase to 5.7% in 2014.

In Africa, many airlines do not have the adequate ability to aggressively market as there better capitalised foreign counterparts who posses more market clout and as a result, the African carriers shy away from inter-continental operations. There are only a handful of
inter-continental carriers in Africa. 80\% of the inter-continental market share to and from Africa is accounted to non-African airlines according to the African Airlines Association (IATA, 2013).

Liberalization within Africa is lacking and this exacerbates the problem. It keeps African airlines isolated and without the ability to develop networks in support of the continent’s economies (IATA, 2013). In addition, many countries within the region restrict their air service markets to protect the share held by state-owned air carriers. This practice originated in the early 1960s when many new-independent African countries created national airlines, in part to assert their status as nations. Government intervention has several motivations, which include patriotism, strategic importance of the sector (from economic to national security angles) and safety of passengers (Heracleous, Wirtz, and Pangarkar, 2009). Fortunately, now most have recognized that the strict regulatory protection that sustains such carriers has negative effects such as inflating air fares and dampening air traffic growth (Worldbank, 2011).

The African Liberalization Project, also referred to as the Yamoussoukro Decision of 1999, remains mostly a theoretical construct. The agreement under this project commits the signatory nations to deregulate air services and promote regional air markets open to transnational competition. Specifically, it calls for among others: the full liberalization of intra-African air transport services in terms of access, capacity, frequency and tariffs; the free exercise of the first, second, third, fourth and fifth freedom rights for passengers and air freight air services by eligible airlines; see table 2.2 (IATA, 2013).
Table 2.1 Regulation of Air Traffic

<table>
<thead>
<tr>
<th>Freedom</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>First freedom</td>
<td>The right of an airline of one country to fly over the territory of another country without landing.</td>
</tr>
<tr>
<td>Second freedom</td>
<td>The right of an airline of one country to land in another country for non-traffic reasons, such as maintenance or refueling, while en route to another country.</td>
</tr>
<tr>
<td>Third freedom</td>
<td>The right of an airline of one country to carry traffic from its country of registry to another country.</td>
</tr>
<tr>
<td>Fourth Freedom</td>
<td>The right of an airline of one country to carry traffic from another country to its own country of registry.</td>
</tr>
<tr>
<td>Fifth freedom</td>
<td>The right of an airline of one country to carry traffic between two countries outside its own country of registry as long as the flight originates or terminates in its own country of registry.</td>
</tr>
<tr>
<td>Sixth freedom</td>
<td>The right of an airline of one country to carry traffic between foreign countries via its own country of registry. This is a combination of the third and fourth freedoms.</td>
</tr>
<tr>
<td>Seventh freedom</td>
<td>The right of an airline of one country to operate stand-alone services entirely outside the territory of its home country, to carry traffic between two foreign countries.</td>
</tr>
<tr>
<td>Eighth freedom</td>
<td>The right of an airline of one country to carry traffic between two points within the territory of a foreign country (Cabotage).</td>
</tr>
</tbody>
</table>


2.3.2 High Tax Bill for Newly Acquired Aircrafts

Kenya Airways could end up paying the Kenya revenue authority up to fourteen billion Kenya shillings in value added tax (VAT) for the newly acquired six Boeing 787 Dreamliners and a Boeing 777-300 ER which are expected into the country before the end of the year. This new issue is as a result of the Parliament deciding to impose value added tax on large aircrafts. This will pose as a new challenge to the national carrier which is already struggling with high fuel costs, low passenger numbers on some routes due to security concerns in the country and stiff competition from rival airlines (Maina, 2014).

This new law will hinder the airlines ability to effectively compete with key rivals such as Ethiopian Airlines and Middle East airlines who are not carrying the extra cost resulting from the imposed tax. To be able to carry the cost, Kenya Airways may be forced to pass it on to the travelers in the form of more expensive tickets (Maina, 2014).
All the VAT payments under the Kenyan law are recoverable under the claims mechanism, but due to the fact that the Kenya Revenue Authority have a huge refunds backlog, Kenya Airways will have to suffer because the carrier’s capital could be tied down with the Kenya Revenue Authority for several years as it continues to keep its operations afloat in a turbulent and difficult business environment (Maina, 2014).

### 2.4 Measures that can be Put in Place to Mitigate Issues Affecting Kenya Airways

This area addresses the measures that can be put in place to mitigate issues affecting Kenya Airways.

#### 2.4.1 Strategies Airlines Have Been Using so far to Survive Competition

The international airline industry provides service to virtually every corner of the globe, and has been an integral part of the creation of a global economy. The airline industry itself is a major economic force, both in terms of its own operations and its impacts on related industries such as aircraft manufacturing and tourism, to name but two. Few other industries generate the amount and intensity of attention given to airlines, not only among its participants but from government policy makers, the media, and almost anyone who has an anecdote about a particular air travel experience (Massachusetts Institute of Technology, 2013).

The international air transport industry plays a key role in the development of the world economy, stimulating exchanges between countries and facilitating international economic relations. The liberalization of market access in Europe, North America, and other regions of world air transport has added a new dimension to competition and customer orientation in the airline industry. This has resulted in airlines revising their growth and competitive strategies to survive and prosper (Berry, 1994). Airline growth and competitive strategies not only include cost cutting measures and better revenue management tools, but also strategic alliances with other airlines. Airlines form alliances to gain access to global networks within the constraints of the current bilateral air services agreement (ASA) system. In many cases, they have entered into code sharing agreements to maintain or expand network coverage, and international code sharing has now become part of bilateral negotiations (Aviation, 2012).
Between 1993 and 1997, European airline markets were steadily freed from government regulations on competition, pricing and services. This allowed the low-cost airlines to open up new services across Europe. This lead to exploitation through pricing air travel at substantially low amounts compared to the existing national carriers. Although the leading airlines were hit by this new competition, they still managed to make substantial profits. This was because; such airlines traditionally earned their major profits from long-haul routes like Amsterdam to New York or London to Singapore. Their short-haul routes, that is, those inside their home countries or within European Union (EU), were rather less profitable and incurred a loss (Lynch, 2009).

The long-haul market was particularly important to some airlines see table 4.3. Airlines with a high proportion of long-haul routes and destinations lie Lufthansa, British Airways and Air France were able to earn significant profits from such operations. Companies such as Iberia, SAS and Alitalia had proportionately less long-haul turnover – for example fewer people wanted to travel from Stockholm to New York than Frankfurt to New York. Hence smaller airlines were unable to benefit to the same extent from profitable long-haul route networks (Lynch, 2009).

Table 2.2 The Importance of Long-haul Business for some Leading Airlines

<table>
<thead>
<tr>
<th>Airline</th>
<th>Country of Origin</th>
<th>Long-haul share of total turnover for airline (%)</th>
<th>Short-haul share of total turnover for airline (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Airways</td>
<td>United Kingdom</td>
<td>63</td>
<td>37</td>
</tr>
<tr>
<td>Air France</td>
<td>France</td>
<td>57</td>
<td>43</td>
</tr>
<tr>
<td>Lufthansa</td>
<td>Germany</td>
<td>48</td>
<td>52</td>
</tr>
<tr>
<td>Alitalia</td>
<td>Italy</td>
<td>35</td>
<td>65</td>
</tr>
<tr>
<td>Iberia</td>
<td>Spain</td>
<td>32</td>
<td>68</td>
</tr>
<tr>
<td>SAS</td>
<td>Sweden, Denmark and Norway</td>
<td>15</td>
<td>85</td>
</tr>
</tbody>
</table>


The concept of airline alliances is not new. The International Air Transport Association (IATA), for example, can be considered as a giant alliance set up by the world’s leading airlines to coordinate international fares. Alliances were first observed in the US domestic markets between major jet and commuter operators for the purpose of jointly developing the market (for example, by providing feeder services). Alliance activity, however, witnessed a significant growth during the 1980s and 1990s due to the intensification of globalizing forces. Faced with the twin requirements of building a global presence and
achieving more efficient cost structures, and yet constrained from undertaking mergers or starting new airlines in foreign markets, airlines found alliances to be a logical strategic alternative (Heracleous, Wirtz, and Pangarkar, 2009).

‘Alliances’ is a broad umbrella term which includes a variety of inter-firm co-operation agreements ranging from equity ownership in a partner to the coordination of frequent flyer programmes. The estimates of alliance activity vary across studies due to several reasons. First, alliances are dynamic and airlines may be continuously forming new ones as well and disbanding old ones. Secondly, the definition of alliances varies across studies and sources. The Airline Business journal, for instance, excludes frequent flyer programme coordination unless it is part of a broader alliance agreement. Thirdly, the coverage of individual surveys might again vary. With this caveats in mind the Economist magazine estimated that in 1995, there were 401 alliances, which was double the number it estimated four years earlier. In contrast, for 1994 and 1995, Airline Business estimated a total of 324 and 280 alliances respectively. Airline Business further estimated that 500 alliances among 120 participants were in force as of June 2004 (Heracleous, Wirtz, and Pangarkar, 2009).

Achieving global service networks, getting access and establishing identities in new markets are being accomplished by airlines involved in alliances. Good profitability levels would not be possible if the airlines operated individually. In addition, the customers who want to minimize their cost of travel; enjoy better services and benefit from frequent flyer programs prefer dealing with airlines backed with large service networks. Constraints such as; congested airports with the presence of landing restrictions, few landing and take-off slots are reduced by being in an alliance; since airlines gain through having better access without having to provide aircrafts or services. Also, economies of scale linked to maintenance, joint marketing, training, ground facilities, and computer reservation systems and through the elimination of repetition in operations are achieved and help in the reduction of costs in airlines (Oum et al., 1996; Borenstein and Rose, 1995).

The fact that so far there has been little discussion on passenger behavior support the need for further investigation. The aim is to detect how potential clients get information about an airline, which information and booking channels they prefer and which attributes of the airline product are most important for them (Aviation, 2012).
2.4.3 Practices that can be Adopted to deal with the Strategic Issues

The competitive environment is crucial to a firm's success since no business functions in a vacuum. As a result, a company needs to develop a competitive advantage to overcome threats provided by its competitive environment (Oduor, 2013). In the ever increasing world of eroding and temporary competitive advantage, firms both local and global find themselves operating in highly competitive and dynamic markets dotted with different levels of competitive actions and reactions. It is clear that static models of strategy formulation and implementation with their assumptions of equilibrium market environments no longer applies to the hypercompetitive industries springing up in the global market place. As the competitive landscape shifts towards a more dynamic one, how important are competitive response strategies to the competitive strategy formulation and implementation process (Emeagwali, 2013).

The pace of the business environment has never been as fast as it is this century. Recent developments, such as the global marketplace and the slowdown in the world economy have caused increased the cost of doing business (Pun, 2002). Fuel is a vital element in the airline industry, hence will remain as a major operating cost of doing business. Therefore the use of more efficient planes which have a lighter weight and have the ability to quickly reach the cruising altitude in flight required and in the progress improve efficiency is recommended (Kumar, Johnson, and Lai, 2009).

Most airlines, including Kenya Airways use the hedging of fuel cost as a strategy. Therefore the airline should maintain this tactic since it will provide the management with more control over this major cost and also allow them the ability to focus the limited resources present in other sectors (Kumar, Johnson, and Lai, 2009).

Due to the current turbulent business environment in the industry, strategic response mechanisms are required. Strategic responses can be defined as, a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm’s objectives (Pearce and Robinson, 2000). Strategic responses are basically reactions to what is happening on the environment of the organization (Okolo, 2009). Strategic responses are long-term, involving high investments and embrace the organization as a whole. According to Ansoff, (1990) a firm can optimize its competitiveness and profitability, by matching its strategy and supporting capability with the environment.
The airline industry is significantly a service-based industry, thus labor is essential. Therefore salaries and wages are a major component of the airlines operating costs. It is possible to scale the salaries depending on the overall company performance to include an incentive based profit sharing scheme for all workers. Transparency and equitable impact on executive salaries are important in ensuring its success (Kumar, Johnson, and Lai, 2009).

Ansoff & McDonnell, (1990) argue that strategic responses may take different forms which are dependent on the organization’s capability and the environment where it exists. The responses include: restructuring, marketing, information technology and culture change (Kiptugen, 2003). Information has become readily available through the internet. Therefore, Kenya Airways can improve their sales through better marketing. Customers, who want to reduce their agent booking fees, use airline websites to book their tickets. Also, they compare prices from various airlines. This is an opportunity for the airline to invest in internet marketing and sales so that they can acquire this customer base (Kumar, Johnson, and Lai, 2009).

Europe’s most successful airline Ryan Air, owns one type of aircraft. This enables them to have a low maintenance cost due to the presence of learning curves, increased specialization and simplified parts and inventory handling. Maintenance costs are usually not a very large cost, but saving on any costs is essential to an airline (Kumar, Johnson, and Lai, 2009).

### 2.4.4 Sustainable Competitive Advantage
A firm has a competitive advantage when it implements a strategy that creates superior value for customers and that its competitors are unable to duplicate or find too costly to imitate (Ireland, Hoskisson, and Hitt, 2013). Studying why some firms outperform others is the essence of strategic management. As a consequence, the determination of how an organization can compete so that it can obtain advantages that are sustainable over an extensive period is necessary by the managers (Dess, Lumpkin, and Eisner, 2008).

Good ideas that work are almost always copied by opponents immediately. In the 1980s, American Airlines tried to establish a competitive advantage by introducing the frequent flyer program. Within weeks, all the airlines did the same thing. Overnight, frequent flyer programs became a necessary tool for competitive parity instead of a competitive
advantage. The challenge therefore is to create competitive advantages that are sustainable (Dess, Lumpkin, and Eisner, 2008).

Michael Porter argues that sustainable competitive advantage cannot be achieved through operational effectiveness alone. Most of the popular management innovations of the last two decades – total quality, just-in-time, benchmarking, business process re-engineering, and outsourcing – are all about operational effectiveness which involves doing the same thing as ones opponent, only better. Each of these is important, but none led to sustainable competitive advantage for the simple reason that everyone is doing them. Strategy is all about being different from everyone else. Sustainable competitive advantage is possible only through performing different activities from rival or performing similar activities in different ways. Companies such as; Southwest airlines has developed a unique, internally consistent and difficult to imitate activity systems that have provided them with sustained competitive advantages. Trying to do everything that one’s rivals do eventually lead to mutually destructive price competition not long-term advantage (Dess, Lumpkin, and Eisner, 2008).

Reorganization has been a major occurrence in the airline industry recently. Former foes in the airline industry characterized by strict regulations have become advocates for cooperation among rival airlines. Both the leading and small airlines are working in unison instead of against each other. Sub-contracting, code-sharing, franchising and world-wide marketing networks are some of the examples being used in ensuring collaborations. Such coalitions enable the carriers to focus their attention on their core competencies while enjoying the advantages of the economies of scale. As a result of the mergers; the intensity of competition has also increased. Joint-marketing has now become a trend. In addition, airlines are now labeled by the desire of wanting to belong to a global network and this is due to the inclination towards achieving global presence (Ahmed, Zairi, and Almarri, 2006).

Traditionally, the transport sector was the most regulated economic sector. For instance, the prices, routes and the services to be offered were set by the state hence, market forces and competition were not considered as issues by the national carriers. Now, the industry structure has changed, demonstrating a new operating atmosphere which has given rise to joint marketing alliances opportunities. The government instruments of regulation have now been replaced with competitive forces over the past twenty years. Previously
protected airlines are finding themselves in a new business environment. Therefore, in order for an airline to become competitive, they have been nudged by the circumstances to stop operating independently, and instead join forces with competitors (Ahmed, Zairi, and Almarri, 2006).

2.5 Chapter Summary
This chapter clearly reviewed the relevant literature in relation to the strategic issues that affect Kenya Airways. The information above incorporated the research objectives that were presented in this study which include: to determine the strategic issues that affect Kenya Airways; the challenges present in addressing the strategic issues and the identification of the measures that can be put in place to mitigate the issues that affect the airline.

The literature had therefore sparked some interest in how a turbulent environment can impact a particular industry to the point of forcing them to reevaluate their strategies approaches. Chapter three looked at the research methodology that was applied to carry out the study.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This study authenticated the strategic issues affecting the airline industry, focusing on Kenya Airways. Consequently, this chapter highlighted the variety of methods and procedures adopted in conducting the study so as to address and answer the research objectives brought up in the first chapter. Guided by the study’s research objectives; chapter two exhibits a review of related literature.

Research design, population and sampling design, data collection, research procedures and data analysis; is the order in which this chapter abided by.

3.2 Research Design

Research design refers the science (and art) of planning procedures for conducting studies so as to get the most valid findings (Collis and Hussey, 2009). A research design provides a framework for the collection and analysis of data (Bryman and Bell, 2003). The applied research design, that is, the descriptive research design is one which attempts to describe a subject by, for instance; creating a profile inclusive of the problems, people or events by means of collecting data then tabulating the frequencies on either the research variables or their interaction (Cooper and Schindler, 2011 p. 18-19). The study collected information from respondents on the strategic issues that affect the airline industry in Kenya. The reason why this type of design was considered as appropriate was because it facilitates the collection of data which will be essential to the realization of the research objectives.

3.3 Population and Sampling Design

3.3.1 Population

A population can be referred to as an accurately defined body of people or objects which under consideration for statistical purposes (Collis and Hussey, 2009). The target population for this survey was the Kenya Airways-Kenya staff. The study targeted two hundred Nairobi office employees. Nairobi was selected as the study location which refers to the setting in which the research is conducted (Collis and Hussey, 2009); due to proximity, time available for research and budgetary constraints.
3.3.2 Sampling Design
According to Cooper and Schindler (2011) sampling is the act of choosing some elements of a population in order to enable that conclusions be made about the whole population. Sampling was done because the resultant cost is lower, the rate of data collection is faster, it ensures homogeneity since the data set is smaller; it was possible and to improve the accuracy and quality of the data.

3.3.2.1 Sampling Frame
The sampling frame is the register from which the sample is drawn and it has to be closely related or similar to the population (Cooper and Schindler, 2011). In this study, the sampling frame was obtained from the company’s Human Resources department list of Kenya Airways employees based at the head-office, hence they were the source of this research’s sampling frame.

3.3.2.2 Sampling Technique
The stratified sampling technique was adopted for this study. In stratified sampling, the population is initially segmented on the basis of one or more pre-established criteria. The method is based on the hypothesis that there is a correlation between the phenomena under observation and the criteria chosen for segmenting the population (Thietart et al. 2001). In addition, the researcher adopted simple random and stratified sampling using Yamane’s formula. A simple random sample refers to a subset of individuals where each is chosen at random and each having a similar probability of being selected from the population (Yates, Daniel, Moore and Starnes, 2008). In addition, the sampling technique used ensured the selection of respondents that were representative and with the requisite information needed to address the specific research questions. This was to enhance the trustworthiness and reliability of the findings of this study.

3.3.2.3 Sample Size
A sample according to Collis and Hussey is a subset of the population (2009). To determine the size of the sample used, the Yamani Taro (1967) formula was used. It states that the desired sample size is a function of the target population and the maximum acceptable margin of error (also known as the sampling error) and it expressed mathematically thus:

\[ n = \frac{N \times Z^2 \times \pi}{E^2 + \pi \times (N - 1)} \]
Where:

\( n = \text{sample size} \)

\( N = \text{target population} \)

\( e = \text{maximum acceptable margin of error (5\%)} \)

Thus in this study, the desired sample size in the Nairobi office is:

\[
 n = \frac{N}{1 + N (e)^2}
\]

\[
 = \frac{133}{1 + 133 (0.05)^2}
\]

\[ n = 100. \]

The research uses a 5\% margin of error; therefore, 100 respondents were targeted by the use of questionnaires. Simple random sampling was adopted for this study by use of random numbers generated by a computer program. To enable the researcher generalize findings to the whole population, a total of 100 employees was used. Statistically, in order for generalization to take place, a sample of at least 30 must exist (Wiersma, 2005).

### Table 3.1 Sample Size Distribution

<table>
<thead>
<tr>
<th>Department</th>
<th>Management Population</th>
<th>Sample Size</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>25</td>
<td>12</td>
<td>19</td>
</tr>
<tr>
<td>Finance and Administration</td>
<td>25</td>
<td>17</td>
<td>25</td>
</tr>
<tr>
<td>Operations</td>
<td>25</td>
<td>24</td>
<td>37</td>
</tr>
<tr>
<td>Information Systems</td>
<td>25</td>
<td>12</td>
<td>19</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>65</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

### 3.4 Data Collection Methods

According to Cooper and Schindler (2000), collecting of data incorporates the amassing of facts from the study’s environment. Primary data was required for this study and it was facilitated by the use of questionnaires which were delivered to the Kenya Airways employees at the Embakasi head-office. A survey was the implemented technique for
collecting the required data. Due to limited time, the questionnaire which is a productive and economic data collecting tool, was considered as ideal.

In addition, the questionnaires helped in making coding and analysis of the data collected easier. Both questions with choices and open ended questions were included in the questionnaires. These questions were divided into four sections, namely; section one contained the demographic details. The second section addressed the strategic issues that affect airlines, the third section looked at the challenges in addressing the strategic issues that affect Kenya Airways and the fourth section collected data on the measures that can be put in place to mitigate the issues that affect Kenya Airways. The five-point Likert scale was applied on different sections of the questionnaire and consisted of a series of statements expressed strongly disagree to strongly agree.

The questionnaires were crafted in simple language that is clear and understandable especially revolving around the various strategic management principles being evaluated.

3.5 Research Procedures

The data collection instrument was a questionnaire and they were administered and preceded by seeking prior permission from the institution management.

Cooper and Schindler (2011) suggest that “a pilot study is conducted to detect weaknesses in design and instrumentation and to provide proxy data for selection of a probability sample.” The pilot study was carried out so as to establish the reliability and clarity of the survey questionnaire. This was done so as to establish the indicators in terms of the length of time that would be taken to complete the questionnaire, the questions that were found to be ambiguous and the questions that were considered uncomfortable were specified, hence enabling adjustments to made, so as to improve the questionnaire.

The questionnaires were given to the respondents and picked when filled. Follow up reminders, which included emails, text messages and phone calls were used to achieve high response rate. Each questionnaire was estimated to take twenty minutes to complete.
3.6 Data Analysis Methods

According to Cooper and Schindler (2011), data analysis involves the reduction of accumulated data that has been acquired into a manageable size, developing the necessary summaries, looking for the present patterns, and applying the appropriate statistical techniques. Descriptive statistics was used in this study.

The data was analyzed using Microsoft Excel and Statistical Package for Social Sciences (SPSS) computer application tools. The descriptive statistics, that is, measures central tendency, in particular mean and measures of dispersion such as; standard deviation and correlation analysis were used. To ensure easy analysis, the questionnaires were coded according to each variable of the study and thereafter entered into the SPSS program. The data was then represented in the form of tables, charts with frequency distribution and percentages to make the research findings at a glance easy to understand.

3.7 Chapter Summary

This chapter will deal with the research methodologies that guided the researcher to collect and analyze the data with respect to the research objectives highlighted in Chapter one. The chapter is organized in the following structure: the research design, population and sample, data collection methods, sampling design and sample size, research procedures, data analysis methods and finally the chapter summary. The methodologies that will be used will also facilitate the presentation of the research findings for easier understanding. Chapter four will present results and findings of the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
This chapter comprises of the findings which are on the basis of the research objectives of the study. It dealt with data analysis, presentation and interpretation of the research findings. This study aimed at investigating the strategic issues affecting airlines with a particular focus on Kenya Airways. The study had a target population of 100 where 65 responded and returned their questionnaires resulting in a response of 65%.

4.2 Demographic Information
4.2.1 Gender of the Respondents
The study sought to establish the gender of the respondents where the findings revealed that, a large proportion, that is, 58.5% of the respondents were male while 41.5% were female as shown below in figure 4.1.

![Gender of Respondents](image)

**Figure 4.1** Gender of Respondents.

4.2.2 Age of the Respondents
The study aimed at finding the apportionment of the Kenya Airways employees’ ages. A summary of the respondents’ ages are provided in Table 4.1 below as a result of the responses received. From the table we see that a majority of the respondents were in the 31-35 years age bracket. Next were the 26-30 years and 36-40 years age brackets that had a tie of 26%. Those aged above 41 years followed with 9% and finally closely after them was the 18-25 age bracket with 8%.
Table 4.1 Age of the Respondents

<table>
<thead>
<tr>
<th>Age</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>18-25</td>
<td>5</td>
</tr>
<tr>
<td>26-30</td>
<td>17</td>
</tr>
<tr>
<td>31-35</td>
<td>20</td>
</tr>
<tr>
<td>36-40</td>
<td>17</td>
</tr>
<tr>
<td>Above 41</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>65</td>
</tr>
</tbody>
</table>

4.2.3 Level of Education of the Respondents

The study sought to ascertain the level of education of the company’s employees. Table 4.2 shows the respondents’ level of education. This study revealed that 46.2% of the respondents had Bachelor Degree qualification, another 46.2% had a Masters Degree qualification and 7.7% had a college certificate/diploma, indicating that education is highly regarded at Kenya Airways.

Table 4.2 Level of Education of the Respondents

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>O’ Level</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>College Certificate/Diploma</td>
<td>5</td>
<td>7.7</td>
</tr>
<tr>
<td>Bachelors Degree</td>
<td>30</td>
<td>46.2</td>
</tr>
<tr>
<td>Masters Degree</td>
<td>30</td>
<td>46.2</td>
</tr>
<tr>
<td>Total</td>
<td>65</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.4 Number of Years Worked in Kenya Airways

The study considered necessary to establish the experience the respondents had in company; therefore they were asked to state the number of years they had worked in Kenya Airways. Figure 4.2 shows the results of the respondents’ period of stay at the organization. The results indicate that a majority of the respondents (51%) have been working at Kenya Airways between 1 and 5 years.
4.2.5 Department the Respondents worked in at Kenya Airways

Based on the findings, 37% of the respondents worked in the Operations department. The next department with the most respondents was the Finance and Administration department with 25%. The Commercial and Information, Communication and Technology departments had 20% and 18% of respondents respectively.

Figure 4.3 Department the Respondents worked in at Kenya Airways
4.3 Strategic Issues Affecting Kenya Airways

The first specific objective of the study was to determine the strategic issues that affect Kenya Airways. Majority of the findings revealed that 83% of the respondents agreed that there are strategic issues that affected the airline. This is exhibited below in figure 4.4.

![Strategic Issues Affecting Kenya Airways](image)

**Figure 4.4 Strategic Issues Affecting Kenya Airways**

To further distinguish the strategic issues that affect the airline; four strategic issues were looked at, namely; Competition, Cost, Customers and Safety and Security. Table 4.3 indicates the extent to which the respondents agreed with the four strategic issues that affect Kenya Airways on a scale of 1 being strongly disagree to 5 being strongly agree.
Table 4.3 Strategic Issues Affecting Kenya Airways

<table>
<thead>
<tr>
<th>Strategic Issues</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>%</td>
<td>F</td>
<td>%</td>
<td>F</td>
<td>%</td>
</tr>
<tr>
<td>Competition</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>8</td>
<td>9</td>
<td>14</td>
</tr>
<tr>
<td>Customer</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>11</td>
<td>17</td>
</tr>
<tr>
<td>Cost</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>19</td>
<td>29</td>
</tr>
<tr>
<td>Safety and security</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>12</td>
<td>18</td>
</tr>
</tbody>
</table>

4.3.1 Extent of the Strategic Issues that Affect Kenya Airways

Figure 4.5 below depicts that a majority of the respondents’ indicated that the strategic issues that affect Kenya Airways did so to a great extent.

Figure 4.5 Extent of Strategic Issues that Affect Kenya Airways

33
4.4 Challenges in Addressing the Strategic Issues that Affect Kenya Airways.

The study also required the respondents to point out if there were challenges that Kenya Airways faced in addressing the strategic issues that affect it. 43% of the respondents agreed that indeed there were challenges that the airline faced as it dealt with the strategic issues as illustrated in table 4.4 below.

Table 4.4 Challenges in Addressing the Strategic Issues that Affect Kenya Airways

<table>
<thead>
<tr>
<th>Distribution</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>43</td>
<td>66</td>
</tr>
<tr>
<td>No</td>
<td>21</td>
<td>32</td>
</tr>
<tr>
<td>Missing</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>65</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

4.4.1 Restrictions in the Airline Service Markets

In particular with regards to challenges that the airline faces when addressing the strategic issues, the study sought to find out the extent to which restrictions in the airline service markets affected the airline. 42% of the respondents indicated that this challenge, that is; restrictions in the airline service markets affected Kenya Airways to a moderate extent.

Table 4.5 Restrictions in the Airline Service Markets

<table>
<thead>
<tr>
<th>Restrictions</th>
<th>Distribution</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percentage</td>
</tr>
<tr>
<td>No extent</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Little extent</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Moderate extent</td>
<td>27</td>
<td>42</td>
</tr>
<tr>
<td>Great extent</td>
<td>22</td>
<td>34</td>
</tr>
<tr>
<td>Very great extent</td>
<td>11</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>65</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

4.4.2 High Value-Added Tax on Acquired Aircrafts

Table 4.6 presents a summary of the findings with regard to high value-added tax on acquired aircraft as a challenge that Kenya Airways faces. 45% of the respondents agreed that the high Value-added tax will indeed affect the airline.
### Table 4. 6 High Value-Added tax on Acquired Aircrafts

<table>
<thead>
<tr>
<th>Category</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>1</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
</tr>
<tr>
<td>Neutral</td>
<td>17</td>
</tr>
<tr>
<td>Agree</td>
<td>29</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>65</strong></td>
</tr>
</tbody>
</table>

### 4.4.3 Other Challenges Kenya Airways Faces in Addressing the Strategic Issues

The study sought to find out the respondents opinions on any other challenges that affect the airline. Table 4.7 depicts a summary of what was offered by the respondents.

### Table 4. 7 Other Challenges Kenya Airways Faces in Addressing the Strategic Issues

<table>
<thead>
<tr>
<th>Category</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Cost of operation</td>
<td>1</td>
</tr>
<tr>
<td>Lack of government support</td>
<td>7</td>
</tr>
<tr>
<td>Politics</td>
<td>21</td>
</tr>
<tr>
<td>High taxation</td>
<td>36</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>65</strong></td>
</tr>
</tbody>
</table>

### 4.5 Measures that can be Put in Place to Mitigate the Strategic Issues Affecting Kenya Airways

A majority (77%) of the respondents concurred that indeed, there were measures being put in place to mitigate the strategic issues that affect Kenya Airways. This is clearly illustrated in figure 4.6 below.
4.5 Measures that can be Put in Place to Mitigate the Strategic Issues

4.5.1 Flying long-haul Routes as a Means to Profitability
With regards to the measure; flying Long-haul routes as a means to profitability, a majority (40%) of the respondents were neutral, 28% of the respondents were in disagreement with this measure while 18% agreed, 11% strongly agreed and 3% strongly disagreed. Table 4.8, illustrates this.

Table 4. 8 Flying Long-haul Routes as a Means to Profitability

<table>
<thead>
<tr>
<th>Category</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>2</td>
</tr>
<tr>
<td>Disagree</td>
<td>18</td>
</tr>
<tr>
<td>Neutral</td>
<td>26</td>
</tr>
<tr>
<td>Agree</td>
<td>12</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>65</td>
</tr>
</tbody>
</table>

4.5.2 Alliances being used as a Means to Achieve Global Service Networks
Table 4.9 depicts the respondents’ agreement with alliances as a means of achieving global service networks. 57% of the respondents agreed that alliances can be used as a means to achieve global service networks.
Table 4. 9 Alliances being used as a Means to Achieve Global Service Networks

<table>
<thead>
<tr>
<th>Category</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
</tr>
<tr>
<td>Neutral</td>
<td>8</td>
</tr>
<tr>
<td>Agree</td>
<td>37</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>18</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>65</td>
</tr>
</tbody>
</table>

4.5.3 Hedging of Fuel Cost to Achieve a Competitive Advantage

The research showed that most of the respondents were in agreement that; hedging of the fuel cost can enable a company achieve a competitive advantage. 48% of the respondents agreed, closely followed by the strongly agreed group with 32%, and next was 14% for those with a neutral opinion and finally 6% of the respondents disagreed with this measure. Table 4.10 below depicts this information.

Table 4. 10 Hedging of Fuel Cost to Achieve a Competitive Advantage

<table>
<thead>
<tr>
<th>Category</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
</tr>
<tr>
<td>Neutral</td>
<td>9</td>
</tr>
<tr>
<td>Agree</td>
<td>31</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>21</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>65</td>
</tr>
</tbody>
</table>

4.5.4 Significance of the Type of Aircraft Owned to Success

Table 4.11 presents a summary of the findings with regards to the significance of the type of aircraft owned to the success of the airline. A majority (42%) of the respondents were of the opinion that it is indeed an important measure that can be put in place to mitigate the strategic issues affecting the airline.
Table 4.11 Significance of the Type of Aircraft Owned to Success

<table>
<thead>
<tr>
<th>Category</th>
<th>Distribution</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percent</td>
<td></td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>3</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Neutral</td>
<td>15</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>27</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>Strongly agree</td>
<td>19</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>1</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>65</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

4.6 Correlation Analysis

4.6.1 Correlation between Gender of Respondents and the Measures that can be put in Place

Upon carrying out a correlation analysis between gender of the respondents and strategies of airlines it was identified that there is a strong significant correlation between gender and alliances, gender and hedging and finally between gender and the type of aircraft. This is evidenced by table 4.12 below.

Table 4.12 Correlation between the Gender of the Respondents and the Measures that can be put in place to Mitigate the Strategic Issues

<table>
<thead>
<tr>
<th>Gender</th>
<th>Strategies</th>
<th>Kendall's tau-b (τ)</th>
<th>Spearman's rho (ρ)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Alliances</td>
<td>.252*</td>
<td>.283*</td>
</tr>
<tr>
<td></td>
<td>Hedging</td>
<td>.252*</td>
<td>.283*</td>
</tr>
<tr>
<td></td>
<td>Type of aircraft</td>
<td>.253*</td>
<td>.284*</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed)**

*Correlation is significant at the 0.05 level (2-tailed)

4.6.2 Correlation between the Level of Education and the Measures that can be put in Place to Mitigate the Strategic Issues

On correlating the level of education of the respondents and the airline strategies it was established that there is as strong significant correlation between level of education and
alliances, level of education and hedging, level of education and the type of aircraft. This is depicted in Table 4.13.

### Table 4.13 Correlation between level of education and strategies

<table>
<thead>
<tr>
<th>Level of Education</th>
<th>Strategies</th>
<th>Kendall's tau-b (τ)</th>
<th>Spearman's rho (ρ)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Alliances</td>
<td>.252*</td>
<td>.283*</td>
</tr>
<tr>
<td></td>
<td>Hedging</td>
<td>.252*</td>
<td>.283*</td>
</tr>
<tr>
<td></td>
<td>Type of aircraft</td>
<td>.253*</td>
<td>.284*</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed)**

*Correlation is significant at the 0.05 level (2-tailed)

### 4.7 Chapter Summary

This chapter presents the findings which are as a result of the information collected and received from the respondents. The first section provides the results related to the respondents personal background which is followed by, a descriptive analysis of the strategic issues that affect Kenya Airways, the challenges it faces in addressing the strategic issues and finally the measures that have been put in place to mitigate the strategic issues. Further insights and inferences are offered in chapter five which also includes the summary together with; the discussions, conclusions and recommendations.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings of the study and in addition gives conclusions and recommendations on the basis of the objectives of the study. It consists of four sections which are; summary, discussion, conclusion and recommendations.

The chapter first summarizes the vital elements of the study which comprise of the study objectives, methodologies and the findings. Secondly, the major findings of the study based on the research objectives are discussed; and finally, using the findings and results in chapter four, conclusions is made.

5.2 Summary

The general objective of this study was to investigate the strategic issues that affect airlines in Kenya with an explicit focus on Kenya Airways. The study was guided by the following research objectives:

- To determine the strategic issues affecting Kenya Airways
- To analyze the challenges in addressing the strategic issues affecting Kenya Airways.
- To identify the measures that can be put in place to mitigate the strategic issues affecting Kenya Airways.

The descriptive research design was used in this study. The target population consisted of one hundred and thirty three respondents from a total of two hundred. From the sample frame of one hundred and thirty three Kenya Airways employees, sixty five filled in and returned their questionnaires. The sixty five responses represented a 65% response rate. The primary data needed by the study was collected through the use of structured questionnaires which were delivered personally to the respondents. The data on the questionnaires were coded and the data analysis tool; Statistical Package for Social Sciences was used to produce the descriptive statistics; and as result, the information was presented in a variety of forms, that is, figures, frequency tables, bar charts, and pie charts.
Looking at the personal data of the respondents, the study found out that a majority of them were male and between the ages of thirty one and thirty five years. This indicates that most of Kenya Airways’ staff is middle-aged. A majority of the employees were in the operations department with most of them having pursued a Masters degree.

The presence of strategic issues affecting Kenya Airways was indicated by 83% of the respondents. In addition, a large proportion, which is 58.5% of the respondents were in agreement that competition is one of the strategic issues affecting Kenya Airways. On the second strategic issue; customers who are key in addressing strategic issues that affect the airline, 47.7% of the respondents agreed that this is the case. Cost being essential as a strategic issue that affects Kenya Airways was indicated by 41.5% of the respondents. 56.9% of the respondents indicated that a major concern that was an important strategic issue that the airline had to deal with was safety and security. Additionally, 40% of the respondents pointed out that; strategic issues that affect Kenya Airways were to a great extent.

66.2% of the respondents thought that there were challenges that the airline; Kenya Airways, faced when addressing the strategic issues. When it came to the restrictions present in the airline service markets, 41.5% were neutral on whether they have an impact on how Kenya Airways functions. Also, 44.6% of the responses received implied that the high value-added tax on acquired aircrafts is a challenge that the airline faces.

On whether there were measures that were being employed by Kenya Airways to manage the strategic issues affecting the airline, 76.9% of the respondents indicated that there were.

5.3 Discussion
This section exhibits the discussion of the findings with regards to the specific objectives of the study in detail.

5.3.1. Strategic Issues that affect Kenya Airways
A majority of the respondents of the study were in agreement that strategic issues do affect Kenya Airways. The study had focused on four main strategic issues which were; competition, customers, cost and safety and security. In the case of competition as a strategic issue, the findings affirm what the Air Transport Action Group had established
in their study that the airline industry exists in a highly competitive market (ATAG, 2005).

Customers are an important element in business and 47% of the respondents concurred they are of major importance in terms of being a strategic issue. According to Kerchen (2004) the airline industry today is growing at a fast pace. Buhalis and Law (2008), indicated that customers are more empowered today due to the advances in Information, Communication and Technology sector, meaning that information is now easily accessible to them, making it essential to the airline.

Eller and Moreira (2013) noted that to garner a competitive advantage over ones rivals, it is essential that a company has proper strategic cost management together with the appropriate responses. The study found out that a large number of the responses indicated that cost was considered as a strategic issue that affects Kenya Airways. Fuel costs are a major operating cost in the airline industry, approximately 30% up from 13% ten years ago (Mwaniki, 2013). In response to this, a majority of the respondents indicated that the airline hedges the fuel costs against currency fluctuations. According to Heracleous, Wirtz and Pangakar (2009) the oil price is denominated in US Dollars, while many international airlines including Kenya Airways earn a substantial amount of their revenues in local currencies leading to incurring a lot of foreign exchange risk.

Safety and security were also indicated as a strategic issue that affects the airline by 57% of the respondent. The International Air Transport Association stated that Africa has the weakest safety performance in the world. The continent’s hull-loss rate is six times greater than those in Asia and Latin America and more than twelve times higher than Europe and North America. Kenya Airways had the foresight and is the leader in terms of safety in Africa. It was the first airline to achieve the rigorous safety certification IOSA (IATA Operation Safety Audit). This further cements the findings on Safety and security being a major strategic concern to the airline.

5.3.2 Challenges in Addressing Strategic Issues affecting Kenya Airways

The findings on whether there were any challenges in addressing the strategic issues that affect Kenya Airways indicated that, a majority of the respondents were in agreement that this was the case. The competitive environment in Africa due to the lack of
liberalization within the continent limits airlines from full achieving their potential (IATA, 2013).

Additionally, many countries in Africa restrict their air service markets to protect the share held by state-owned airlines (Heracleeous, Wirtz and Pangarkar, 2009). 41.5% of the responses on this issue were neutral on whether it was a major challenge on Kenya Airways’ functionality.

In efforts to expand its fleet, Kenya Airways recently acquired six Boeing 787 Dreamliners and a Boeing 777-300 ER. But due to Parliament deciding to impose value-added tax on large aircrafts, Kenya Airways could end up paying fourteen billion shillings in tax to the Kenya Revenue Authority. The study revealed that this is a major challenge for the carrier. This new law will hinder the airline from being able to effectively compete with key rivals such as; Ethiopian Airlines and Middle East Airlines who will not be carrying this extra cost from imposed tax (Maina, 2014).

5.3.3 Measures that can be Put in Place to Mitigate the Strategic Issues affecting Kenya Airways

With regards to the whether there are any measures being applied by the airline to manage the strategic issues affecting it, a large proportion of the responses, were positive, that is, 77%. According to Lynch (2009) leading airlines in Europe between 1993 and 1997, continued thriving in the midst of competition after deregulation, which lead to the introduction of low cost carriers which exploited the element of price. Airlines such as; British Airways, Lufthansa and Air France which have long-haul routes such as; Amsterdam to New York continued earning good profits due to possessing the long-haul operations.

The study established that most of the respondents agreed that alliances can be used by airlines as a means of achieving global service networks, getting access and establishing identities in new markets. Kenya Airways joined the Skyteam alliance on September 4, 2007. Some of the benefits Kenya Airways gets from being a member of the alliance are, for instance; for the particular routes it does not fly to, the company can still offer extended network benefits to its customers (Skyteam, 2014).
Companies that compete globally are exposed to currency fluctuations (Lasserre, 2003). Finding from the study were that to control operational costs, the major one being fuel cost, 48% of the respondents indicated that hedging was necessary. According to Mwaniki (2013) the airline industry is sensitive to spikes in oil prices indicated by the fuel cost having risen from 13% of the operational costs a decade ago to 30% recently.

A majority of the respondents of the study agreed that the type of aircraft owned by the airline is important to its success. According to Kumar, Johnson and Lai (2009) Ryan Air, Europe’s most successful airline owns one type of aircraft. Although maintenance costs are not a very substantial operating cost, having a single type of aircraft enables Ryan Air to have a low maintenance costs due to having learning curves, increasing specialization and inventory handling.

5.4 Conclusions
This section provides the conclusions in accordance to the research findings.

5.4.1 Strategic Issues Affecting Kenya Airways
The study concludes that there are strategic issues that affect Kenya Airways. Furthermore, with regards to the strategic issues, namely; competition, customers, cost and safety and security, the latter was the major concern especially in today’s Kenya which is marred with rising incidences of insecurity.

It was also revealed that the strategic issues that affect Kenya Airways do so to a great extent.

5.4.2 Challenges in Addressing the Strategic Issues Affecting Kenya Airways
With regards to the challenges in addressing the strategic issues affecting Kenya Airways, it was concluded that, indeed there are. Also, it was concluded that this company faces challenges such as; lack of government support, political issues in addition to restrictions in the airline service markets and high value-added tax on the acquired aircrafts.

5.4.3 Measures that can be Put in Place to Mitigate the Strategic Issues Affecting Kenya Airways
The study concludes that it is essential to adopt and practice measures that will enable the management of strategic issues that affect the airline. Measures such as flying long-haul routes, joining alliances to enable the airline achieve global service networks, hedging of
fuel costs and acquiring the right fleet of aircrafts are key in dealing with the strategic issues that affect airlines such as; Kenya Airways.

5.5 Recommendations
The recommendations given in this section are as a result of what the researcher feels are key to the airline industry, with a particular focus on Kenya Airways, with regards to the strategic issues that affect them.

5.5.1 Recommendations for Improvements
5.5.1.1 Strategic Issues Affecting Kenya Airways
From the data it appears that strategic issues do in fact have an impact on Kenya Airways. Therefore it is important for the company to take into consideration the major strategic issues that affect it so that the proper strategies to counter them can be formulated to ensure that the airline continues to dominate the market.

5.5.1.2. Challenges in Addressing the Strategic Issues Affecting Kenya Airways
The study acknowledges that there are challenges present in addressing the strategic issues that affect Kenya Airways. In this regard, from the findings and conclusions of this study, it is recommended that policies be created and implemented that will enable together with, ensure that any challenges that may arise in the future can be dealt with effectively.

5.5.1.3 Measures that can be Put in Place to Mitigate the Strategic Issues that Affect Kenya Airways
The study has demonstrated that Kenya Airways was applying various measures to manage the strategic issues that affect them. In today’s turbulent business environment it is paramount for any airline to have a sustainable competitive advantage, thus it is recommended that for the organization to fully achieve its potential it has to go back to the ‘drawing board’ and bring out strategies that will give them an edge over the rivals. For instance, adequate and proper lobbying at parliament so as to ensure that the laws made do not negatively affect the airline’s operations in any way.
5.5.2 Recommendations for Further Studies

The airline industry is dynamic in nature. It is also susceptible to a vast number of issues. The researcher recommends that additional studies should be conducted on the strategic issues that affect airlines to enable the generalization of the study findings.


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Appendix 1: Research Questionnaire

SECTION A: BACKGROUND INFORMATION

Strategic Issues affecting Airlines: Case Study of Kenya Airways

The purpose of this questionnaire is to investigate the Strategic Issues that Affect Airlines: A Case Study of Kenya Airways. Please take a few minutes to pick the response from among those given that best represents your views.

Demographic Details

1. Gender:
   Male □    Female □

2. Age:
   Between 18-25 □ 26-30 □ 31-35 □ 36-40 □ Above 41 □

3. Level of education
   ‘O’ level □
   College certificate/diploma □
   Bachelor’s degree □
   Masters degree □
   Other …………………………………………………………………………………………………………..

4. Number of years worked with Kenya Airways
   1-5 □ 6-10 □ 11-15 □ Over 15 □

5. Department you work in, within Kenya Airways.
   Commercial [ ]
   Finance & Administration [ ]
   Operations [ ]
   Information, Communication & Technology [ ]
SECTION B: STRATEGIC ISSUES AFFECTING KENYA AIRWAYS

i. Are there any strategic issues that affect this airline?

Yes [ ]  No [ ]

ii. In your opinion, please indicate the extent to which you agree with the following statements by using a scale of 1 to 5 where 1 = strongly disagree and 5 = strongly agree.

<table>
<thead>
<tr>
<th>Category</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition is one the strategic issues affecting Kenya Airways</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Customers are key in addressing strategic issues affecting Kenya Airways</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Cost is key as far as strategic issues affecting Kenya Airways is concerned</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety and Security are contributors to strategic issues affecting Kenya Airways</td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

iii. To what extent do the strategic issues affect Kenya Airways?

Very great extent [ ]
Great extent [ ]
Moderate extent [ ]
Little extent [ ]
No extent [ ]
SECTION C: CHALLENGES IN ADDRESSING THE STRATEGIC ISSUES THAT AFFECT KENYA AIRWAYS

iv. Do you think there are any challenges that Kenya Airways faces in dealing with the strategic issues?

Yes [ ]  No [ ]

v. To what extent do the following challenges that Kenya Airways faces, affect how you address the Strategic issues?

<table>
<thead>
<tr>
<th>Category</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restrictions in the airline service markets</td>
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<tr>
<td>High value-added tax on acquired aircrafts</td>
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</table>

vi. In your own opinion, explain the main challenge that Kenya Airways faces in coping with the Strategic Issues.

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vii. Outline some of the policy options Kenya Airways has adopted to counter this/these challenge(s).

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SECTION D: MEASURES THAT CAN BE PUT IN PLACE TO MITIGATE THE STRATEGIC ISSUES AFFECTING KENYA AIRWAYS

viii. Are there any measures that are being used by the airline to counter or manage the strategic issues that affect Kenya Airways?

Yes [ ]                     No [ ]

ix. Indicate the extent to which you agree with the following statements by using a scale of 1 to 5 where 1 = strongly disagree and 5 = strongly agree.

<table>
<thead>
<tr>
<th>Category</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Flying long-haul routes enables Airlines to earn significant profits.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>b) Alliances can be used by airlines as a means of achieving global service networks, getting access to and establishing identities in new markets.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>c) Hedging of fuel cost can give an airline a competitive advantage.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>d) The type of aircraft(s) owned is important to the success of the airline.</td>
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<td></td>
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</tr>
</tbody>
</table>

x. In your opinion, what other measures can be used to mitigate the strategic issues that affect Kenya Airways.

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THANK YOU FOR HONEST FEEDBACK