GLOBALIZATION AND THE DEVELOPMENT OF THE AIRLINE INDUSTRY: ANALYZING THE CASE OF KENYA AIRWAYS

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GLOBALIZATION AND THE DEVELOPMENT OF THE AIRLINE INDUSTRY: ANALYZING THE CASE OF KENYA AIRWAYS

BY

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SUMMER 2018
STUDENT DECLARATION

I declare that this is my original work and has not been presented to any other college, university or other institution of higher learning other than United States International University Africa

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ABSTRACT

The main objective of this study was to examine how globalization had affected the development of the airline industry by using Kenya Airways as a case study. The specific objectives included the following: To examine the positive impact of globalization on the development of Kenya Airways; To examine the negative impact of globalization on the development of Kenya Airways; To examine the effect of globalization on Kenya Airways market expansion strategies. This research was a case study on Kenya Airways. Both qualitative and quantitative methods were utilized. The positive impacts include the expansion of global airline markets to which other local and international airlines can access. For Kenya Airways, this means the expansion in passenger numbers, resulting in the expansion of the airline's annual revenues. The negative impact of globalization on the airline sector on the development of Kenya Airways include high costs of operations, high costs of fuel, increased domestic and international competition, and restrictive and stringent BASA agreements. The main strategies used by Kenya Airways to develop in the face of globalization include Route expansion, airports expansion and modernization and strategic alliances. This study concludes globalization has had a more positive impact on the development of Kenya Airways than negative effects. This study recommends that Kenya Airways should engage in fuel hedging that is pegged 5% volatility margins above and below the market rate to avoid huge losses attributed to fuel costs and mitigate the cost of failures of previous open-ended hedging that was disastrous for the airline.
ACKNOWLEDGEMENT

I would like to acknowledge my supervisor Maurice Mashiwa for wonderful guidance during the process of writing this thesis. Thank you.
DEDICATION

I would like to dedicate this thesis to my family and friends for their excellent support during my studies and writing of this thesis. Thank you.
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<th>Acronym</th>
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<tr>
<td>AfDB</td>
<td>Africa Development Bank</td>
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<td>AFRAA</td>
<td>Africa Airline Association</td>
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<td>BASAs</td>
<td>Bilateral Air Service Agreements</td>
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<td>CAPA</td>
<td>Center for Asia Pacific Aviation</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GFT</td>
<td>Green Field Terminal</td>
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<td>IATA</td>
<td>International Air Transport Aviation</td>
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<td>ICAO</td>
<td>International Civil Aviation Organization</td>
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<td>LCC</td>
<td>Low-Cost Carrier</td>
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<td>SSA</td>
<td>Sub-Saharan Africa</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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CHAPTER ONE

1.0 INTRODUCTION

Global markets have undergone significant transformation over the years. This has been occasioned by the increasingly interactive, and customer-driven economy that is globally connected where time and speed are essential (Bofinger, 2009). In this regard, firms are forced out of necessity, to develop strategies to enable them to compete effectively in the global environment. Specifically, global competition for markets, products, and capital has drastically influenced and transformed the airline industry. The need and demand for high quality, speed, and reliability in the air transport sector has primarily been driven by globalization. In this regard, airlines and the air travel infrastructure must keep pace with the ever-changing demands for its services derived from competition from other global players (Doganis, 2001). Ultimately, the survival or thriving of the airline industry is predicated upon specific firms’ ability to adapt to sectoral changes, customer needs, and operational efficiencies for effective competition in the global arena.

Kenneth Button defines globalization as the process of expanding local state markets, capital and products into the international stage (Button, 2008). On the other hand, Heinrich Bofinger defines globalization as the process through which organizations or businesses develop international influence and start operating in the international arena in various forms (Bofinger, 2009). This means that as the global market grows, airline operating organizations keep seeking for new frontiers for businesses and market expansion, and as a way of enhancing their profitability, performance and influence.

This thesis is organized in the following manner: Chapter one presents the background of the study on the history of the airline industry, the statement of the problem, study questions and objectives, justification of the study, and the scope of the study. Chapter two of this thesis
presents the literature review and theoretical underpinnings for this study. Chapter three presents the study methodology that was adopted for this thesis.

1.1 Background

The civil air transport system emerged in Pre-World War I era, when in 1909 a German company Deutsche Luftschiffahrts-Aktiengesellschaft (DELAG), with the help of the government began operating airships in Frankfurt (Roeder, 1991). According to Gibbs-Smith (1965), the idea of establishing a civil transport system in Frankfurt was to enhance air transport between major cities in Germany. Before 1914, Hugo Junkers, and Engineering and aviation company Germany developed F-13 first all-metal transport civil aircraft in the world (Fokker, 1997). The F-13 aircraft was an advanced cantilever-wing plane that could accommodate four passengers (ibid). In as much as the F-13 was slightly successful in civil aviation, the market was not fully developed, and the infrastructure for air transport was not yet established. Equally, passengers did not, however, believe in the reliability and safety of air vehicles, in addition to the weak public demand for air transport systems (Gibbs-Smith, 1965).

By 1914, just before the beginning of WWI, DELAG operated seven civil airships on 1500 routes of approximately 175, 000 Kms, carrying about 18, 500 passengers. Following DELAG success in Germany, the United States of America and other European countries such as France and Netherlands started their air transport system, howbeit, this was limited to mail transport system (Roeder, 1991). Airlines such as the Koninklijke Luchtvaart Maatschappij (KLM Dutch Airlines) and Queensland and Northern Territory Aerial Services Limited (Qantas) began the first international air mail services in 1920 using fixed-wing aircraft. The flights were limited to mail since the air transport system was still prone to very high accidents (Neufville & Odoni, 2013).
The commencement of intercontinental passenger air travel began at the end of the 1930’s with the airline companies designing aircraft with more range, safety, and capacity (Roeder, 1991). For instance, according to Neufville and Odoni (2013), KLM flew from Amsterdam to Batavia in Fokker F-XVIII Pelikan taking for days to transport passengers to and from the two destinations. In 1926, the US Air Commerce Act helped to structure navigation, licensing of civil aircraft licensing of pilots and air transport vehicles, which commenced the first push to establish safety, reliability and public confidence in passenger air transport systems (Bofinger, 2009).

After the end of WWII, the aeronautical engineering know-how was transferred from military fighter jets to civil air transport further enhancing passenger air travels. For instance, in 1927, Charles Lindbergh opened transatlantic air transport with a solo flight from New York to Paris (Button, 2008). As such, the nonstop flight helped to show the new capabilities of the modern aircraft and galvanized the public in embracing air travel (ibid). By 1938, German airports have recorded 315, 000 passengers using air transport systems (Neufville & Odoni, 2013). Following the success of the Germany air transport, British company de Havilland developed the COMET which allowed a better way of flying by reducing the time for long-range routes, leading to an upsurge in passenger uptake of air travel (ibid). By the end of 1952, American Engineering companies including McDonald-Douglas, Boeing, and Lockheed Martin developed B-707, DC-8, and L-1049 aircraft that became successful passenger air transport vehicles.

By the end of the 1960’s Boeing B-707, Douglas DC-8, Tupolev Tu-104, and Sud Aviation-Caravelle aircraft designs began being developed leading to the development of national airlines that started to operate an international network of passenger air transport system (Button, 2008; Bofinger, 2009). Ethan Steiner notes that in the 20th century, Boeing of the US and Airbus of France became the dominant civil aircraft manufacturers in the world, well
ahead of Embraer of Brazil, Bombardier of Canada, AVIC of China, Mitsubishi M21 of Japan, and Superjet of Russia (Schmitt, 2004; Steiner, 1984). In the current 21st century, the air transport system is no longer a challenge of speed, size of capacity, but rather the cost of operating air transport business, low emissions and green features desirable for the positive mood of traveling public (Schmitt, 2004)

Globally, Qatar Airways was ranked the best airline in 2017 based on customer service, entertainment, and seat comfort. Qatar is a Middle East airline that flies to 150 destinations, and as such, has significantly penetrated into the global market. Etihad Airways and Emirates are the other Middle East airlines with global recognition. The Asian Airlines are the most dominant in the worldwide market including Singapore Airlines, All Nippon Airways (Japan), Cathay Pacific Airways (Hong Kong), EVA Air (Taiwan), South Korea Asiana (South Korea, Japan Airlines, Thai Airways (Thailand), Garuda (Indonesia) and Hainan Airlines (China). For the European market, the major players include Lufthansa (Germany), British Airways (Britain), KLM (Netherlands), Turkish Airlines (Turkey), Air France (France), Virgin Australia (Australia), Swiss International Airlines (Switzerland), Qantas (Australia) and Air New Zealand. In North America, the leading airlines include Delta and American Airlines (IATA, 2016).

In Africa, the leading national airline carriers include Ethiopian Airlines (Ethiopia), South Africa Airways (South Africa), Air Mauritius (Mauritius), Air Seychelles (Seychelles), Kenya Airways (Kenya), Egypt Air (Egypt) and Royal Air Moroc (Morocco) (IATA, 2016). Most of the African Airlines have felt the pressure of globalization, mainly from the well-established airline giants from Europe and Asian markets, which have penetrated the African market with cheaper rates, best seat comfort, and entertainment making them more competitive compared to Africa national carriers. Ethiopian Airlines is the leading African
airline flying to most destinations (101) that any other African national carrier, and it is equally, more profitable when other airlines like South Africa Airways, Kenya Airways, and Egypt Air are experiencing global pressure and massive losses (Neufville & Odoni, 2013).

Kenya Airways is a national carrier of Kenya, operating within Kenya, many Africa countries, Asia, and Europe (Kenya Airways, 2017). The Jomo Kenyatta International Airport (JKIA) is the hub for Kenya Airways Operations (KQ) in Nairobi. Kenya Airways was established in 1977 following the collapse and subsequent disbanding of East African Airways. In 1995, the government of Kenya partially privatization of the airline through the shareholder agreement and master cooperation agreement with Royal Dutch KLM, that concluded in December 1995. In March 1996, the airline offered the initial public offer (IPO) offloading 51% of the airline shares to the public translating in 235 million shares, while KLM acquired 26% of the remaining shares, and Kenyan government retained 23% of the shares (Kenya Airways, 2017).

In 1997, Kenya Airways acquired first four Boeing 737-300 aircraft geared at enhancing passenger air transport system. In 1999, KQ was voted African Airline of the Year by a United Kingdom (UK) based Africa Aviation Magazine (Africa-Aviation, 1999). This was the case in 2000, 2001, 2003, 2010, and 2012 successfully. In 2009, KQ acquired the first state of the art Boeing 777, and 6th 767 passenger aircraft to boost air travel and by 2015, the airline has acquired additional Boeing 777, and 787 enhancing passenger traffic to more than 4.6 million in 2016 (Kenya Airways, 2017). With more than 40 years of operations, KQ has commanded not only the East African air transport market, but larger African market with essential routes in Europe and Asia, and currently operates 59 routes. However, due to significant operational loses (Kshs. 26 billion in 2015; and kshs. 10 billion in 2016) due to high business operational costs, stiff competition from global airlines, forcing the airline
reduced its aircraft fleet from 52 to 39 in 2017 (ibid).

Over the years, the airline markets worldwide have undergone significant transformations to meet the needs of a more globally interactive, interconnected and customer drive economies where speed and time are of the essence (Bofinger, 2009). Stiff competition and growing number of players in the air transport sector has pushed airlines to develop strategies to deal with pressures of globalization, and as such, the survival of airlines largely depends on their ability to balance operational costs, market competitiveness, safety, reliability, and modern appeal to the 21st century passengers (Button, 2008, Schmitt, 2004).

1.2 Statement of the Problem

Significant changes in the global airline industry have placed much pressure on national carriers to perform and fend off stiff competition from global players. However, this has not been the case with national carriers battling for local and global routes and passengers with well-established and highly subsidized airlines. As such, to remain relevant and competitive, Africa national carries like Kenya Airways have had to expand and modernize their fleet, increase destinations, while at the same time, reduce operational costs. However, Kenya Airways quest for global competitiveness has come at a severe cost. In 2012, KQ suffered a 50% decline in profitability, which was followed by Kshs. 26 billion losses in 2015, and Ksh. 10 billion losses in 2016, leading to urgent government bailout to keep the airline afloat. Globalization pressures such as the entrant of global players such as Emirates, Etihad, and Qatar Airways have chipped away part of the market Kenya Airways use to dominate. Additionally, operational costs in terms of cost of jet fuel and price fluctuations have been blamed for the losses at Kenya Airways. Additionally, the business model of rapid expansion and purchase and leasing of more aircraft have also been blamed for the losses at the airline.

KQ was also forced to sell off and lease 20 aircraft cutting the airline’s fleet from 59 aircraft to 39 (Kenya Airways, 2017). This notwithstanding, the airline was equally forced to sell off
London Heathrow Airport morning slot for Kshs. 7.5 billion to Oman Air (Business Daily, 2016), and also sold 5 acres piece of land at Embakasi Nairobi to Kenya Medical Supplies Agency (The East African, 2016). According to the former Airline CEO, Mr. Mbuvi Ngunze, KQ needs Kshs. 100 billion to pull a complete turnaround to profitability. Equally, in the 2015/2016 financial year, the airline failed to pay government debt of Kshs. 25 billion, and Kshs. 23 billion loans owed to banks, leading to the conversion of this debt-equity (The star, 2017).

Several studies have been conducted on the airline sector and particularly Kenya Airways, but few have focused on the effects of globalization on the airline. Ng’ang’a (2016) study focused on strategic interventions to compact challenges in global arena including low-cost flights, and modernization of fleet; Wanjiku (2014) focused on strategic issues affecting airline sector including increased competition, costs, and security, but did not examine whether there existed a link between globalization and challenges at Kenya Airways. Gichira (2007) study focused mainly on the challenges of globalization on Kenya Airways. This study seeks to expand on the existing literature by providing in-depth analysis of globalization and development of airline sector by using Kenya Airways as a case study by examining positive impact of globalization on Kenya Airways; negative impact of globalization on Kenya Airways, and effect of globalization on KQ’s market expansion strategy.

1.3 Objective of the Study

The general objective of this study is to examine how globalization has affected the development of the airline industry by using Kenya Airways as a case study.

1.3.1 Specific Objectives

The specific objectives for this study are as follows:
• To examine the positive impact of globalization on the development of Kenya Airways
• To examine the negative impact of globalization on the development of Kenya Airways
• To examine the effect of globalization on Kenya Airways market expansion strategies

1.4 Research Questions
This study was guided by the following research questions:

• How has globalization in the airline industry positively impacted Kenya Airways?
• How has globalization in the airline industry negatively impacted Kenya Airways?
• What are the effects of globalization on Kenya Airways market expansion strategies?

1.5 Justification of the Study
This study is important in that it will help expand on the body of existing literature on globalization. Specifically, this study has examined both the positive and negative impact of globalization on the development of the airline industry, in addition to effects of globalization on airline market expansion strategy. The importance of this study is that it provides Kenya Airways and by extension other national carriers seeking to enhance their operations in the global competitive air transport environment (Button, 2008). As has been highlighted by Gichira (2007), the airline industry has undergone significant changes and challenges as a result of globalization. Airlines that are able to understand the effect and impact of globalization are able to thrive and enhance performance. Bofinger (2009) has highlighted the significance of airlines understanding the impact of globalization, and how to react to the dynamic operational environment, with dynamic 21st-century passenger needs. This study could, therefore, help management at Kenya Airways to streamline operations in line with emerging global competitive challenges and standard. This study is equally beneficial to the
national carriers’ regulatory authorities and policy makers who are in charge of formulating regulatory and policy responses to not only cushion their national airlines, but ensure fair competition with other global places, and also opportunities to enter into mutually beneficial agreements for survival and posterity of national airlines. For international airline association, this study could unveil significant effects that impact global airline performance, and as such, the association can rely on the findings of this study to streamline policies and regulations for International Civil Aviation Organization (ICAO) to promote fair and competitive global airline businesses.

Globalization has had a positive impact on airlines such as the Ethiopian Airlines which has increased its destination routes to 98 by 2017, with 47 destinations in Africa, and 17 routes domestically, and 11 destinations in Asia-Pacific (CAPA, 2017). Equally, due to globalization, Ethiopian Airlines has accumulated more than US $ 800 million in operational profits in the last eight years, while the rest of Africa airline sector has accumulated losses of approximately US $ 1.5 billion (Innovata, 2015). In terms of seat capacity, Ethiopian Airlines lead the African airline sector with 30,302 weekly seat capacity, compared to the closest rival, Air Mauritius with 11,672 weekly capacity, while Kenya Airways is a distant forth with 8,606 weekly seat capacity. Additionally, Ethiopian Airlines is the only Africa airline with 85 operational aircrafts, and with 48 fleet order. The airline also operates Africa largest Maintenance and Repair Overhaul (MRO), in addition to operating training simulators for B787, B777, B767/B757, B737, Q400, and A350 (CAPA, 2017).

This means that Ethiopian Airlines has utilized globalization effectively to enhance the development of the airline both operationally, performance and growth. As such, Kenya Airways can use Ethiopian Airlines to benchmark on how to utilize globalization to enhance growth and development of KQ. This study provides findings on both positive, and negative
effects of globalization on KQ, and the expansion strategies that should be employed to enhance such growth.

1.6 Scope of the Study
This study examined the effects of globalization on the development of the airline industry. This study focused on Kenya Airways, a Kenyan national carrier operation in Nairobi. The scope was limited to the positive impact of globalization on Kenya Airways; negative impact globalization on Kenya Airways; and effect of globalization on Kenya Airways market expansion strategy.

1.7 Chapter Summary
This chapter has presented the background of the study on globalization and development of the airline industry. This chapter has also presented the problem of the study, study objectives, and researcher questions and finally the scope of the study. The other chapters of this thesis are organized as follows: Chapter two presents literature review on globalization in the airline industry together with the theoretical underpinnings of the study. On the other hand, chapter three presents the methodology to be adopted for the study including study design, data collection, and analysis methods.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents literature review based on work by various scholars who have examined the area of globalization and development in the air transport industry. The concept of globalization is introduced first, followed by effects of globalization on the airline industry, and finally the theoretical underpinnings that guided this study.

2.2 Concept of Globalization

Globalization is defined as the shift silo national economies to a more integrated and integrated network of the world economy that is based on mutual exchange of tangible and intangible goods and services (Hill, 2005). On the other hand, Johnson and Scholes (2002) define globalization as a global economic strategy of approaching the worldwide markets with standardized goods and services. Globalization can be traced more or less intensely in history, even though there exist divergent views on the actual starting point of globalization (Grinin & Korotayev, 2012). For instance, according to Frank Grills, globalization started as long as 3rd millennium BC with the movement of people out of Africa (Frank, 1990), while Jasper (1953) argues that globalization was taking place as early as 1st millennium with the Axial Age. During this period, there was a world system expansion of empires and new civilizations, where for instance, agrarian revolution and change in agricultural farming began exchanging farming technologies and cultivation working iron tools (Grinin & Korotayev, 2012). Empires such as the Roman Empire and Carthaginian empires in the west were formed leading to initial stages of the industrial revolution (ibid)

Other scholars, for instance, Gellner (1988); Hopkins (2003); and Bayly (2004) believe that globalization could be well understood through periodization: Archaic globalization, early
modern globalization, and contemporary globalization. Similarly, Friedman (2005) uses periodization to divide globalization into three main categories: Globalization 1 (1492-1800); Globalization 2 (1800-2000); and Globalization 3 (2000-present). Under Globalization 1, Friedman argues that this stage involved globalization of countries; Globalization 2 involved the globalization of companies, while Globalization 3 involved the globalization of individuals.

By the 16th to the 17th century saw the rise in military revolutions in Europe leading to modernization of European states (Grinin, 2012), and by the 19th and 20th century, trade-capitalist core had emerged in Europe, transforming Asian and African territories into exploited peripheries, leading to the development of world system of trade (Wallerstein, 1974). To this end, Grinin (2012) notes that interconnectedness led not only to growth in financial flows, but establishment of multinational and transnational that have continued to drive mass production of goods, services, information, and communication, and as such, enhancing global competition in different industries and sectors (Friedman, 2005).

In Post-World War II and decolonization, the world system adopted scientific revolution, which in conjunction with trade liberalization, led to rapid globalization (Wallerstein, 1974; Hopkins, 2003; Grinin & Korotayev, 2012). Equally, drastic developments in communication, information technology particularly the internet, and rapid transport technologies have made the world a prominent market place that can be accessed simultaneously within short periods of time (Hill, 2005). As such, advancement in the above factors stated by Hill have provided unprecedented mobility to goods, services, and even cheap labor. This is particular the case with the West seeking cheap labor in developing the world in exchange for technology, financial flows, and goods and services (Grinin & Korotayev, 2012).
Despite the fact that globalization has enhanced connectedness and global interactions, scholars such as Vargha (2005) and Steger (2004) contend that globalization largely serves the interest of the western nation as opposed to developing countries. In most instances, even where there has been a significant transfer of benefits such as technology, this has been done primarily for the benefit of the West, particularly for multinationals that need to enhance production efficiencies in developing countries. Khor (2001) is one of the leading scholars who has itemized most important reasons as to why globalization lacks tangible benefits including increased economic loses for developing countries, social dislocation and loss of culture, spread of capitalism and wealth inequality, and finally, globalization has enhanced environmental degradation in developing countries paving the way for MNEs and western industrialization. Further, Khor argues that countries in the South do not adequately benefit from globalization because of technological variance between the North and South. Low prices exportation of South raw material resources vis-a-vis importation of high priced North product, enhancing the balance of payment and debt for countries in the Southern bloc.

Bigman is another scholar who argues that proliferation of world trade through entities such as the World Trade Organization (WTO) increases inequality since the majority of developing countries do not trade in value-added products, and as such, are major losers in symbiotic international trade relations (Bigman, 2007). Bigman further notes that there is little to show for in terms of economic growth and income generation for most developing countries since the economic gap between the North and South has increased globalization significantly as a result of globalization (ibid). Dani Rodrik, on the other hand, argues that globalization markets are good for developing countries, however, the conditions that come with globalization, for instance, complete liberalization of markets requirement required of developing countries (Rodrik, 2007). Retrospectively, this has made it difficult for developing countries to have fair competition with products or firms from well-established
technologically savvy developed countries. This notwithstanding, most developed countries provide subsidies to firms, particularly those in agricultural production, reducing their production costs and enhancing their competitiveness compared to those produced by developing countries (ibid). Thus, globalization holds greater promise for multinationals to create larger markets locally and internationally, and by extension, create international understanding partnerships and linkages for economic development and corporate profits (Schmitt, 2004). However, globalization does threaten developing countries economic development, particularly, industrialization, due to the flooding of local markets with international products that make local industry growth or products severely uncompetitive (Hill, 2005).

2.2.1 Anti-Globalization

The scholarship of anti-globalization lies in the demerits attached to globalization. For instance, Rodrik argues that anti-globalizers view globalization as an extension of exploitation by the economically powerful states, over weak states (Rodrik, 2007). Arguably, the gains of globalization in developing countries are minimal in comparison to gains economically powerful states. To elaborate on this argument, Bofinger notes liberalization of aviation airspaces is most often driven by developed states, and as such, developed states determine to a large extent how multilateral agreements on airspaces are done. In turn, leverage to determine the structure of multilateral agreements provide developed states with an unfair advantage over developing state (Bofinger, 2009). Liberalization of airspaces is an extension of globalization, primarily set to exploit undeveloped and underdeveloped markets for economic gain (Grinin & Korotayev, 2012).

The proponents of anti-globalization in the airline sector point to the democratic deficit in decision-making processes pushed by an international organization such as the ICAO (Tabb,
2003). In most instances, aviation policies, processes, regulations, licensing and multilateral agreements are pushed by ICAO, whose composition and structure is western. Precisely, Unites States, Unites Kingdom, France, Germany, Japan, Italy, Russia, Canada, are the major players at the ICAO council since they control the majority of aircraft manufacturing, air safety, security and regulations (ICAO, 2003). In retrospect, one could argue and rightly so, that developing countries do not have decision-making opportunities at the ICAO council, when airline operation guidelines, security, safety, and regulation are decided by the West (Nolan, Ritchie & Rowcroft, 2005). After the signing of Chicago Convention agreement in 1944 that created ICAO, the objective of ICAO was to ensure efficient, safe and economically viable civil air transport system (ICAO, 2005). However, it should be noted that factions led by the United States and the United Kingdom ultimately determined the structure and objectives of ICAO. The reason why this is important is that it highlights the exclusion of developing countries in determining the rules and regulations that would eventually oversee air transport regulation and liberalization upon which globalization (Nolan, Ritchie & Rowcroft, 2005).

Rodrik further argues that the Washington Consensus that was aimed at rescuing developing countries from economic collapse in the 1980s and 1990s turned out to be a hoax as most of the developing countries were forced to open and liberalize their market, which led to collapse of local industry, increase national debt, and unemployment affecting most sectors including national aviation industries (Rodrik, 2007). As such, this adds credence to the anti-globalization crusaders who argue that the West benefits more out globalization than developing countries (Tabb, 2003). In the air transport sector, this could mean that liberalization of air spaces through globalization ensures a market for well-established airlines against national airlines for developing countries.
The anti-globalization movement does not only criticize the non-pluralistic and non-democratic decision-making process at the ICAO in which the developing and underdeveloped countries are marginalized, but also the economic exploitation embedded within globalization (Nolan et al., 2005). Stated differently, globalization thrives on capitalism, which in essence, advances corporate profit maximization at the expense of skills transfer and growth of national civil aviation systems for developing countries. Findlay and O’Rourke (2007) are among the who have championed the challenges of globalization. They argue that globalization demand for removal of trade tariff barriers in developing countries by developed countries makes it difficult for local industries to thrive. Worse still, in the aviation sector that is bilateral and multilateral trade agreements trade agreements between the developed and developing states most often, favors the developed countries. This is due to the fact that developed countries have the technology, capital, skills, granting them leverage during bilateral or multilateral negotiations.

In as much as anti-globalization protestation advanced towards World Trade Organization (WTO) has mainly focused on liberalization and trade disparities in the agricultural trade, Bello (2006) argues that WTO has been a conduit of economic exploitation in development of economies for southern countries and therefore should be disbanded. Further, Bello explains that globalization thrives on uneven rules where the most powerful controls the levels of power and regulations that the developing states are required to submit, and therefore, argues that WTO’s version of globalization has lost its value and should be disbanded. On the contrary, Bray and Bray posit that the interdependence of technology and high skill necessity precludes deglobalization, instead, makes globalization imperative. In the air transport sector, this means that one cannot wish away from globalization and still competition from well-developed civil aviation corporations. What is needed is bilateral
agreements that allow for the development of local industry instead of stifling, and uneconomic competition (Bray & Bray, 2002).

2.2.2 Globalization in the Airline Industry

Globalization has had a share of both positive and negative effects on the airline industry. According to Button (2009), the implication of globalization has had a profound effect on the international air transport industry, not just on the demand side, but also on the supply side. For instance, demands in global airline markets have led to significant shifts with major global airline penetrating deeply in developing markets for instance American Delta Airways, Emirates Airways, Etihad Airways, British Airways, and Royal Dutch KLM making significant incursions developing markets have been on the increase for the last five decades (Hill, 2005). According to the Economist (1993), between 1970 and 1990, air travel grew by 400% globally. The wave of globalization in early 1990 did not spare the airline industry. Airlines, by this time, mostly national carriers, were faced with significant globalization challenges including liberalization of airspaces (Hill, 2005). Ultimately, the advent of globalization meant that airline restructuring was inevitable. Airlines had to figure out had to go through restructuring to meet global market requirements, reduce operational costs, and remain competitive (Grinin, 2012; Schmitt, 2004).

One of the other significant drivers of globalization on the airline industry is the internationalization of airframe and aero-engine production. Stated differently, few global players determine the airline safety, security, and operationalization regulations and policies. To this end, Schmitt (2004), argues that Boeing of America, Lockheed Martin of America, and Airbus of France control over 90% of aero-engine production globally. This means that most airlines globally have to rely on this few corporations, and their standards and regulations to operate an airline industry successfully.
Grinin (2012) equally notes that overreliance on few players to control the safety, security, manufacture, and production of air transport vehicles and aero-engines is problematic in itself, and makes globalization more viable. Equally, as noted by Button (2009), airline institutions are reliant on specific technologies that are controlled and exported by a few. This is perceived to be the situation in the foreseeable future since the acquisition of capital, technology, and skills to compete with the few players in the market is a costly affair.

Prior to the globalization wave of the 1990s, most airlines were state-owned carriers linking the domestic economy with other major foreign traders or trade partners (Aosa, 2006). Government carriers were shielded from unfair competition from global players by government regulations and subsidies that made it difficult for new difficult for private or global players to penetrate local airline markets (Vargha, 2005; Steger, 2004). As such, any forays into local markets were managed through Bilateral Airline Service Agreements (BASAs). BASAs ensured very minimally to no threats posed by new entrants into the airline markets before licensing was granted. Significantly, barriers of entry included the imposition of high entry license fees, high airport landing fees, inconvenient landing time allocations for arrivals and departure making it difficult for other flight connections (Iatrou & Oretti, 2007). In Post-WWII, there emerged a dense network of BASAs that contained tight regulation, particularly on market entry, capacities, and airfares.

Clancy and Hoppin (2001) argue that the globalization of the airline industry is still governed by ICAO rules and regulations that were laid down in the Post-WW II era. Despite significant developments in global markets, mainly push for liberalization and free trade, economic integration, technology advancements, BASAs still stifle free and fair competition in the airline industry, and as such, for developing countries to benefit from globalization of airline industry, they have to meet stringent BASA conditions to access developed states markets (Clancy & Hoppin, 2001). In most instances, BASAs frustrate developing countries to gain
access and compete fairly in the airline transport industry. This challenges notwithstanding, the overall development of airline transport, particularly in the African continent in the globalization era has been curtailed by stringent protective BASAs among African states themselves. According to the United Nations Economic Commission for Africa, African states held a civil aviation conference in Yamoussoukro, Ivory Coast in 1988 to establish open skies for African airlines. The conference resolutions dubbed the Yamoussoukro Declaration on 1988 was geared at countering the adverse effects of BASAs, liberalize African air spaces and enhance African airlines ability to compete in the globalized markets (UN Economic Commission for Africa, 2001). However, little success has been achieved over the Yamoussoukro Decision as most African states still have stringent BASAs making airline industry development and globalized competition a challenge. Similarly, as noted by Clancy and Hoppin (2001), African air transport still experiences different growth rates, with East and South African states making considerable growth and gains, compared to Central and West African states experiencing poor development of airline industry, and as such, cannot effectively compete with global airlines in the market.

One of the other challenges of globalization in the airline industry in Africa is the lack of political good will, lack of cooperation among African airlines (Airport Watch, 2008). It is also important to note that most African airlines are usually small, weak, and highly indebted to effectively compete with Asian or European airlines (Grinin, 2012). Successful African airline such as South African Airways, Kenya Airways, and Ethiopian Airways has managed to negotiate for effective BASAs, relied on proper management despite seasons of losses, have led to competing effectively with the European and Asian airlines (ibid).

One of the advantages of globalization in the airline industry for developing countries is to join well-established airline network teams, and by extension, benefit from their expertise, and networks in terms of new markets. For instance, Kenya Airways joining of Sky Team
grants the airline access to Sky Team network, as is the case with Ethiopian airlines joining Star Alliance (Abeyratne, 2008). Despite these advantages of globalization in the airline industry, several factors impede effective airline engagement and benefit. According to Airport Watch (2008), poor airport infrastructure makes it difficult for the national airline to compete effectively with regional or global competitors. Airports are hubs for national carriers. Lack of a good airport hub weakens an airline ability to develop mutually beneficial BASAs with other players in the globalized airline industry (Schmitt, 2004). One of the other challenges, as had been alluded to by Grinin (2012) in the globalization of the airline industry, is the weak bargaining power of developing countries to negotiate for open skies policy. This is due to the lack of skilled airline policy personnel, corruption, politics, and lack of aircraft fleet to compete with other regional and global airlines for current and emerging markets (ibid).

Efficiency in the operation of an airline goes a long way in establishing the airline competitiveness. According to Abeyratne (2008), developed countries have a high level of skilled airline expertise and personnel compared to developing countries. The net impact of this reality is that airlines in developing countries are in most cases, poorly managed and lack effective strategies for competing with highly established airlines. The case for globalization means that the highly organized and highly skilled airlines do establish a higher threshold for competitiveness that in most instances, disadvantages lowly developed airlines (Tabb, 2003). In this regard, in any competition within a given market will often favor highly developed airline, and in other cases, completely drive poorly developed airlines out of the market (Abeyratne, 2008).

2.4 Theoretical Framework

This thesis was guided by the World Systems theory of globalization. The World Systems theory was developed by Immanuel Wallerstein in 1974. Wallerstein view globalization not
as a present or recent phenomenon, but rather a result of the spread of capitalism Post-WWII. He further argues that the critical structure of capitalism world system is expansionist through globalization, as this guarantees maximization of profit for the proponents of capitalism. In the international relations field, globalization is viewed as constructed on the inter-state system and interstate rivalry to the production, and distribution of good, services, and systems within the international arena. According to Wallerstein, the capitalist world-system is driven by geographically based hierarchal organized tiers. The first tier is made of the core or what he refers to as the powerful developed countries in the global system. This was originally comprised of Western Europe but was expanded to include North America and Japan. The second tier is composed of periphery countries which were forcibly colonized by the core through colonialism and imperialism. Most countries that fall under this category include Latin America, Africa, Asia, Middle-East, and Eastern Europe. The third tier is composed of first tier countries that have fallen economically or third-tier countries that have made significant economic progress in moving up the development scale (Wallerstein, 1974).

Wallerstein notes that for globalization to work, world system and structure must be driven by capitalism. As such, the world system does not see the transcendence of nation-state systems or individuality or centrality of national as the unity of analysis or principal component in the analysis of the larger globalized system. Other aspects such as the growth of crisis, technology, industrialization, and struggle among powerful states to dominate demand and supply of specific commodities and product as key drivers to capitalism and globalization. Since globalization system works on intensified-interconnectedness and interdependencies among states in the global system, which constitutes world system as a significant theory of globalization. In as much as Wallerstein had initially argued against including world systems theory in globalization, however, in his writing “Globalization or Age of Transition?” (2002:250), he argued that the twentieth and twenty-first century,
globalization was a moment of transformation in the world system, in which the entire capitalist system transformed how trade interaction in the global sphere is conducted.

The World System theory is relevant to this study in that it will enable the researcher to examine how the economically dominant core and semi-periphery interact with the globalization of airline industry particularly in the periphery countries like Kenya, where Kenya Airways that forms this study emanates. Since world, system thrives on capitalism, and profit maximization by multinational organizations or other influential organizations in the global system, this theory will help in determining the extent to which globalization, particularly penetration of core country airlines into periphery countries has affected the development of airline industry in the periphery countries and by extension, Kenya Airways.

2.5 Chapter Summary

This chapter has presented the concept of globalization, including the arguments presented as a case for globalization. Similarly, this chapter has presented the case for anti-globalization and preceding scholarly arguments on the same. Of significance, this chapter has presented a literature review of globalization in the airline industry but examining both the positive aspects and negative aspects of the same. Finally, this study has presented the theoretical framework upon which this thesis was premised.
CHAPTER THREE

3.0 METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was adopted by this thesis study. The research design to be adopted by the thesis is presented first, followed by data collection methods; data analysis methods, research procedures, study limitation and chapter summary.

3.2 Research Design

A research design is defined as the framework that guides the entire research study (Cooper & Schindler, 2014). Kothari (2004) on the other hand notes that research design is important since it helps a research plan the resources available for a study. Further, Kothari notes that a research design helps a researcher to select an appropriate methodology for the study. The research design for this study is a case study. According to Bryman (2012), a case study enables a researcher to examine an in-depth analysis of a single element, which might constitute an organization, a group, a state, or group of states. A case study is appropriate for this study in that it provided the researcher the opportunity to examine how globalization has affected Kenya Airways over the years, and the kinds of impact documented over time, whether positive or negative. Both qualitative and quantitative methods were used for this study.

The qualitative methodology focused mainly on texts, opinions, as opposed to statistical quantification required in a quantitative study, to collect data that answer the objectives of the study, while quantitative aspect focused on tangible, measurable aspect of globalization on Kenya Airways, profits/losses, number of passengers, number or routes among others. This study relied on the interpretivist approach to make sense of the data and findings of the study. Interpretivists give meaning to a phenomenon by attempting to interpret meaning respondents
to give to the data of findings of a given study or phenomenon (Kothari, 2004). In this case, Data on found on both the positive and negative impact globalization has brought to Kenya Airways was interpreted in line with the meaning different scholars have given in written texts, journals, newspaper articles among others.

3.3 Data Collection Methods

Data collection methods are defined as the process through which a researcher collects data that answers research objectives and questions of a study (Cooper & Schindler, 2014). This study adopted a survey of literature to answer the research questions. For research question one on the positive impact globalization has had on Kenya Airways, the researcher relied on Kenya Airways annual reports for the last ten years. Ten years is chosen since the period provided tangible trends that can be examined and interpreted as opposed to a few years that might not show clear trends in impact. The study also relied on newspaper writings from both local and international newspapers by examining the different discourse writers have had on the positive impact globalization has had on Kenya Airways. On the second research question on the negative impact of globalization on Kenya Airways, this study also relied on Kenya Airways annual reports for the last ten years; newspaper writings, and scholarly journals and other unpublished thesis studies conducted on the same. On the previous research question on effects of globalization on Kenya Airways market expansion strategy, this study relied on Kenya Airways Strategic plan documents for the last ten years, annual work plans for the last ten years, newspaper writings and other scholarly journals and unpublished thesis on the same subject.

3.4 Data Analysis Methods

Data analysis method is defined by Kothari (2004) as the process of making sense out of research data through detailed procedures of analysis. Cooper and Schindler (2014) on the other hand notes that data analysis method is the systematic review of data collected in a
research study for emerging facts, themes, and also emerging trends. This study utilized secondary data analysis method to analyze data collected from Kenya Airways annual reports, strategic plans, newspaper writings, scholarly journals and unpublished thesis studies on the same subject. Emerging themes and trends per each research question were analyzed for views, opinions and presented using quoted citations and documented facts or evidence that answered the research questions.

3.5 Research Limitations
The limitations of this study included the lack of all strategic plan documents for all the ten years and the lack of all annual plans report for all the ten years. However, the target is to get at least seven yearly reports and seven strategic plans out of the ten desired. This enabled the researcher to achieve the objective of establishing the trends on the impact of globalization on the development of Kenya Airways. There is also a possibility that some of the newspaper writings might be biased and not reflective of the actual impact of globalization on Kenya Airways. To mitigate this challenge, all newspaper writings collaborated with other writings on similar topics by other others to establish the legitimacy of the data and information.

3.6 Chapter Summary
This chapter has presented the research methodology that was adopted for this study. A case study research design was adopted for this study. Qualitative and quantitative approached adopted by this study have been presented in this chapter. This study utilized secondary data sources to collect data and information to answer research questions. Data was analyzed for emerging themes and trends and used to answer research questions.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This main study objective was to examine the impact of globalization on the development of the airline industry with Kenya Airways as the case study. To answer this objective, the study employed the following specific objectives: To examine the positive impact of globalization on the development of Kenya Airways; to examine the negative impact of globalization on Kenya Airways, and finally, to examine the effect of globalization on Kenya Airways market expansion strategies. The findings are organized and presented per each specific objective.

4.2 Positive Impact of Globalization on Development of Kenya Airways

Globalization is a universal force that has contributed to the expansion and growth of the airline industry and accrued numerous positive aspects along the way. Globalization has precipitated various improvements both for passenger and cargo business for the Kenya Airways (Africa Aviation, 1999). According to Bayly (2004) on globalization and the birth of the new world, the airline industry has contributed immensely to the growth of Kenya Airways in various Ways such us passenger volumes. Liberalization of the Airline sector has been a result of the globalization of the airline sector, which has led to the expansion and opening up of the Kenyan Airspace. Currently, there are 14 airlines operating both domestic and international routes. Kenya Airways has commanding 60% of the domestic market as indicated in Table 4.1
Table 4.1: Kenya Growth in Domestic Airlines

<table>
<thead>
<tr>
<th>Rank</th>
<th>Airline</th>
<th>Total Seats</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>KQ</td>
<td>22,560</td>
</tr>
<tr>
<td>2</td>
<td>5H</td>
<td>6,464</td>
</tr>
<tr>
<td>3</td>
<td>P2</td>
<td>5,264</td>
</tr>
<tr>
<td>4</td>
<td>B5</td>
<td>1,776</td>
</tr>
<tr>
<td>5</td>
<td>XLK</td>
<td>1,428</td>
</tr>
<tr>
<td>6</td>
<td>XU</td>
<td>464</td>
</tr>
</tbody>
</table>

Source: (CAPA – Centre for Aviation & OAG, 2015)

The effect of globalization has also seen a drastic increase in a number of both local and international airlines operating in Kenya. According to Innovata (2015), Kenya Airways still leads with 496 weekly fights with 59, 415 seat capacity. Ethiopian Airlines and Emirates are some of the international airline providing Kenya Airways with a stiff competition with (35) and (14) weekly flights with a seat capacity of 5, 416 and 4, 837 respectively. Other international airlines such as RwandAir, Five Forty Aviation, Safarilink, Air Kenya, KLM, Fly Sax, Qatar Airways, Turkish Airlines among others as highlighted in Figure 4.1.

![Kenya's top 12 airlines](image)

**Figure 4.1: Major Airlines Operating in Kenya**

(Source: Innovata, 2015)
Other major airlines that have joined that operate in Kenya and offer Kenya Airways competition include British Airways, South African Airways, Etihad Airways, Brussels Airlines, EgyptAir, Korean Airlines, and Swiss International Airlines (Fortune Africa, 2018).

Globalization and liberalization of the airline sector in Kenya saw Kenya Airways expand its fleet to meet market demand to 62 aircraft in 2014, before reducing to 47 in 2016, and 39 in 2017. The 2016/17 types of aircraft are highlighted in Table 4.2

<table>
<thead>
<tr>
<th>Aircraft Type</th>
<th>31 March, 2017</th>
<th>1 April, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>B777-300ER</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>B777-200ER</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>B787-8</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>B737-800</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>B737-700</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>B737-300</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>B737-300F</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>E190</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>E170</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Dash 8-400</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>39</td>
<td>47</td>
</tr>
</tbody>
</table>

Source (Kenya Airways, 2016)

In as much as Kenya Airways has significantly reduced the number of operational fleet from 47 (2016) to 39 (2017), the available airlines are still significant in the airlines expansion plan during this restructuring period, so as to allow the airline to return to profitability before more aircrafts can be secured (Kenya Airways, 2017).

4.2.1 Increase in Passenger Volume

The impact of globalization on Kenya Airways passenger volumes has been significant. According to Kenya Airways 2007-2017 annual reports, numbers have grown from 2.6 million passengers to 4.4 million passengers as per December 2017. In 2008/2009 the
passenger number increased by 6% to 2.76 million; 2009/2010 the numbers rose to 2.82 million; 2010/2011 the numbers of passenger increased to by 21% to 2.89 million; in 2011/2012, the passenger numbers grew by 75% to 3.64 million; while in 2012/2013 the passenger numbers grew by 2% to 3.66 million. In 2013/2014 the passenger numbers grew by 6% to 3.72 million, while in 2014/2015 the passenger numbers grew by 46% to 4.18 million, and in 2015/2016, the passenger numbers grew by 5% to 4.23 million, the year 2016/2017 had a passenger number growth by 23% to 4.46 million. These findings are summarized in Figure 4.1

![Figure 4.1: Kenya Airways FY07/08-FY 16/17 Annual Passengers](Source: KQ FY07/08-FY 16/17-Annual Reports)

The drastic increase in passenger numbers is a testament to the effect of globalization on Kenya Airways. The more airline markets are opened to Kenya Airways, the more the number of passengers grows, the more associative benefits like increased employment, revenue, and entry into strategic markets is enhanced (Anna Aero Airline Network, 2017). Globalization has enabled Kenya Airways not only to access international markets outside Africa but Africa benefits from airline markets within the continent. According to the Kenya
Wall Street Newsletter (2017, August), Kenya Airways passenger numbers for the West African route increased by 26% by June 2016, a significant accomplishment that will enable the airline to return to profitability following 2014/2017 performance turbulence. For the Central African route, there was a recorded 20% increase to 44,887. Equally, the North African route opened up marginally (2%) for Kenya Airways to increase passengers on the route to 48,628 while increasing capacity for the African route by 15%. The Airline former CEO Mr. Mbuvi Nguze noted that:

“…The African market has opened up significantly and compared positively due to the continuing opening up of the airline market in the region. The frequency of flights to destinations line Djibouti through Addis Ababa now represent 9% of the North Africa region” (Kenya Wall Street, 2016: para 4)

**Increase in Capacity**

One of the effects of globalization has been the increase in capacity for one-way seats available in the Kenyan market. According to Innovata Annual Capacity report, in 2014, Kenya annual seat capacity continued to increase over the years reaching 6.3 million in 2013. The domestic traffic figures equally increased by 12% compared to the international sector that increased by 6.8% (Innovata, 2014). From 2004 to 2014, combined capacity for Kenya 19 airports grew at an annual growth rate of 4.6%. The report also notes that Kenya Airways seat capacity for international market grew by 65% as summarized in Figure 4.3
On the domestic market, Kenya Airways controls more than half of the weekly capacity. Dar es Salaam in Tanzania and Entebbe in Uganda are Kenya Airways frequent international destinations. Globalization has also had significant impact even in the passenger uplift to Europe that has gradually increased from 102,749 to 990,000 by the end of 2017; Middle East passenger traffic increased to 450,000; Asia increased to 440,000; America increased to 130,000; while the African continent increased to 2,800,000 (Kenya Airways, 2017) as summarized in Figure 4.4
Figure 4.4: Global Passenger Arrivals (000’s) by Continent
(Source: IATA, 2017)

Due to globalization, the air transport sector, Kenya Airways has grown and developed to the extent that it is able to connect Kenya to emerging markets that are essential in trade, and that can be used to drive Kenya’s economic growth. Globalization of the airline industry has made it possible for the Kenya Airways to fly to 6 direct emerging markets (China, India, China, Angola, Nigeria) in the world as measured by Gross Domestic Product (GDP), and a further 20 flight destinations to 20 fastest growing cities as measured by the cities GDPs (IATA, 2017). One of the other contributions of globalization to Kenya Airways is the growth in a number of employees working for the airline. Currently, 7,436 employees work for Kenya Airways and group, in addition to 11,000 more employees who offer support services in terms of airport management and other services (Kenya Airways, 2017). Growth in employees means that the airline is able to compete with other global airlines by providing related human services to the sector, which leads to customer satisfaction and return service.
Kenya Airways Access to International Markets

Inevitably, the advent of globalization in the airline sector means there is a higher demand for the movement of both people and goods between countries. In this regard, Kenya Airways benefits directly and indirectly by providing freight services to markets where the airline operates (Oxford Economics, 2009). Further, Oxford Economics Report indicated that:

“…given the commercial orientation of the modern airline transport, Kenya Airways will benefit by taking advantage of the global supply of passengers from the global market” (Oxford Economics, 2009: Pg. 12)

As of July 2016, Kenya Airways was serving 54 destinations out of which 44 were in Africa, and 10 in other continents (Kenya Airways, 2016). As the competition for intercontinental airline business continues to grow, Kenya Airways intends to add new 6 new destinations between 2018-2019 including Chongqing, New York, Hyderabad, Washington D.C, Ahmedabad, Moscow and Xiamen (Kenya Airways, 2017). This kind of anticipated growth would not be possible without the impact of globalization and liberalization of the global airline sector. The growth plan of Kenya Airways in the global market is summarized in Table 4.3

Table 4.3: Kenya Airways Wide Body Expansion Plan (2014-2021)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Delhi, 767-300, 4x</td>
<td>Beijing, 777-200LR, 3x</td>
<td>Toronto 777-200LR, 3x</td>
<td>Chengdu, 787, 3x</td>
<td>Washington Dulles, 777-200LR, 3x</td>
<td>Xiamen, 787, 3x</td>
<td>Kunming, 787, 3x</td>
<td>Prague, 787, 3x</td>
</tr>
<tr>
<td>Kuala Lumpur 767-300, 3x</td>
<td>Sao Paulo, 787, 3x</td>
<td>Abu Dhabi, 787, 3x</td>
<td>Perth, 787, 3x</td>
<td>Hyderabad, 787, 3x</td>
<td>Moscow, 787, 3x</td>
<td>Dhaka, 787, 3x</td>
<td>Urumqi, 787, 3x</td>
</tr>
<tr>
<td>Bangalore, 787, 3x</td>
<td>Berlin, 787, 3x</td>
<td>Shanghai, 787, 3x</td>
<td>Chennai, 787, 3x</td>
<td>Chongqing, 787, 3x</td>
<td>Ahmedabad, 787, 3x</td>
<td>Seoul, 787, 3x</td>
<td>Hanoi, 787, 3x</td>
</tr>
</tbody>
</table>

(Source: CAPA-Centre for Aviation and Kenya Airways, 2014)

According to CAPA Centre for Aviation (2018) notes that despite the fact that Kenya Airways ran into performance and profitability head wings since 2014, the airline ‘Project Mawingu’ expansion strategy into North America, Australia, and South America is still on
course. However, the airlines most viable future is in Asia as indicated in Table 4.1. Incursions into China, India, Philippines, South Korea, and in the Middle East signals the positive impact of globalization on the development and growth of Kenya Airways (CAPA, 2018). For instance, the expansion of Kenya Airways posts the 2017-2018 recovery presents an enormous potential of the Chinese market. Currently, Kenya Airways focuses on Beijing and Guangzhou, and Hong Kong cities. Before operational turbulence hit Kenya Airways in 2014, Project Mawingu strategic plan was to increase Kenya Airways destinations from 55 to 115 in 2021, and 45 countries to 77 countries by 2021. Similarly, the plan envisaged that the development of the airline would see the increase in intercontinental operations from the current 4 to 6 continents with the addition of America and Australia.

Following the Kshs. 10.5 billion loss for the half-year that ended September 2015, the airline halted Project Mawingu ambitious expansion plan of buying nine (9) 787-8 Dreamliner’s. Leasing, as opposed to buying, was adopted at the new airline expansion strategy during the financial loss turbulence period. This notwithstanding, the expansion strategy is still on. It might have slowed done the project implementation phase, but the ultimate goal of reaching 15 destinations in 6 continents is still alive. The expansion network is highlighted in Figure 4.5
To highlight the significance of the expansion, Kenya Airways gained the licensing to access American Market through New York JFK Airport as from 28 October 2018 (Anna Aero Airline Network, 2017). To this end, Kenya Airways former CEO Mr. Nguze noted:

“…given our current financial losses at Kenya Airways, we must be prudent in finding other innovative financing solutions for the airline expansion strategy and growth ambition. Instead of purchasing the Dreamliner’s, we have entered into a lease agreement with AWAS Aviation Trading Ltd. This will allow us to have new aircraft with minimal capital costs, which will enable us to give our clients the best travel experience” (Business Daily, 2016: Para, 6).

Globalization of the airline industry has made it possible for airlines to enjoy significant economies of scale, scope, and density particularly for main international airports with long-haul carriers that usually benefit from feeder services of local carriers. In some countries, this means that an international airline can pick feeder services from a local hub and distribute to
nearby countries or airports (Bofinger, 2009). Kenya Airways has benefited from this kind of arrangements. For instance, in Zambia, Kenya Airways would shuttle between Livingstone Airport, Lusaka Airport; and Ndola Airport picking feeder services that enhanced its operations performance in the region. Similarly, in Zimbabwe, Kenya Airways would shuttle between Harare International Airport and Victoria Falls Airport picking on feeder services. In Tanzania, Kilimanjaro and Dar es Salaam would serve as feeder points, while in Nigeria, Lagos and Abuja would serve as feeder points (Kenya Airways, 2018).

According to Oxford Economics 2009 Report on economic benefits of the air transport sector in Kenya, an elasticity of 0.07 in demand would lead to 10% improvement in Kenya Airways connectivity relative to Kenya’s GDP, which would see Kshs. 1.5 billion increase per annum as highlighted in Figure 4.6

![Figure 4.6: Globalization Impact on Kenya Connectivity](image)

Source: IATA, 2009

This means that the more Kenya Airways is connected, the more the increase in GDP and economic growth, which further, fortifies the airline development to meet the growing market demand. According to Anna Aero Airline Network (2017), the economic benefit of connectivity is substantive both to Kenya Airways and the economy at large. The supply side of Kenya Airways connectivity comes through international travel, tourism, and international
trade. The more Kenya Airways leverages tourism, intercontinental travelers, and international trade, the more connectivity the airline enjoys. This has been particularly the case with the current 4 continent that Kenya Airways serves (Bigman, 2007).

According to the Kenya Airways 2017 annual report, Cargo volumes have dipped from 60-70 million tonnes range experienced during the 2010-2014 period. However, the there is a significant increase in demand for Kenya Airways cargo as a result of an increase of 3.5% in global cargo demand. In 2016 the airline transported 53.9 million tonnes, while in 2017, there was an increase to 55.7 million tonnes (Kenya Airways, 2017). The air cargo accounts for approximately 35% of the total value of goods that are traded globally. Kenya airways incursion into this global cargo market could see the airline return to better performance and profitability.

**Globalization and Kenya Airways Revenue Generation**

According to AFRAA (2008), Africa has benefited immensely from the globalization of the airline sector. Extensive employment in the airline industry has resulted in the increase in revenue that amounted to about USD 1.7 billion by the end of 2010 (World Bank, 2010). The airline industry, just like any other going concern has to earn revenue to cover for operational costs and profitability. According to Kenya Airways annual reports for 2011 to 2017, Kenya Airways revenue grew from Kshs. 85 billion in 2011 to Ksh 116 billion in 2016, before declining to Kshs. 106 billion in 2017. Over the same period, in as much as Kenya Airways was experiencing massive growth in revenue, the turbulent operational environment and the cost of its expansion strategy saw the airline incur significant losses of Kshs. 10.8 billion in 2013, worse losses in 2016 of Kshs. 26 billion, before reducing the losses to Kshs. 10 billion after the airline initiated a restructuring program aimed at returning the airline to profitability (Business Daily, 2017). The revenue and profit analysis is summarized in Table 4.4
Table 4.4: Kenya Airways Revenue and Profit Analysis FY2011-2017

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (Ksh M)</td>
<td>85,836</td>
<td>107,897</td>
<td>98,860</td>
<td>106,009</td>
<td>110,161</td>
<td>116,158</td>
<td>106,277</td>
</tr>
<tr>
<td>EBT (Ksh M)</td>
<td>5,002</td>
<td>2,146</td>
<td>-10,826</td>
<td>-4,861</td>
<td>-29,712</td>
<td>-26,099</td>
<td>-10,202</td>
</tr>
<tr>
<td>Profit after Tax (Ksh M)</td>
<td>-</td>
<td>-29,704</td>
<td>-9,248</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Passengers (m)</td>
<td>3.1</td>
<td>3.6</td>
<td>3.7</td>
<td>3.7</td>
<td>4.2</td>
<td>4.2</td>
<td>4.5</td>
</tr>
<tr>
<td>Passenger load Factor (%)</td>
<td>69.2</td>
<td>71.7</td>
<td>68.7</td>
<td>65.6</td>
<td>63.6</td>
<td>68.3</td>
<td>72.3</td>
</tr>
</tbody>
</table>

Source: IATA, 2017

The air transport is critical in the distribution of high value to weight products. In the global airline market, air cargo accounts for 0.5% of international trade, with value to airline revenue at 34.6% (Oxford Economics, 2009). Further analysis shows that the Kenyan air freight regional distribution had the Asia Pacific with 27%, followed by North America 25%, Europe 24%, Caribbean and Central/South America 21% and the Middle East and rest of Africa 3% as summarized in Figure 4.7.

Figure 4.7: Regional Distribution of Cargo
Source: Oxford Economics, 2014

As indicated in Figure 4.5, Kenya Airways has the potential for cargo freight distribution to divergent regions as a result of the globalization of the airline sector. This means that Kenya Airways will benefit from the globalization of the airline sector, but investing significantly in
the cargo freight services. This will not only expand the airlines reach but also enable the airline to develop and compete effectively with other major global airlines (Abeyratne, 2008).

**Globalization and Airline Employment**

Globalization has significantly impacted the airline employment globally. In Kenya for instance, globalization in the airline sector has caused a massive increase in the airline jobs, with 6,000 people directly employed in the sector, other 8,000 jobs indirectly supported by the sector, and a further 8,000 jobs spinning off through the supply chains making the total contribution of 22,000 jobs to Kenya airline (IATA, 2017). Most of the employees According to Kenya Airways 2000 and 2017 Reports, the airline has seen an increase in employees from 2,338, to a high of 4,834 in 2012, before falling back to 3,582 in 2017. This increase is attributable to an increase in demand for air travel, cargo, and interconnection from Kenya to different parts of the world. According to IATA, the airline sector, and more so, Kenya Airways contributes approximately Kshs. 7.1 billion to the Kenyan Economy. The airline also indirectly contributes to another Kshs. 2.9 billion on output to the supply chain, and a further Kshs. 3.1 billion to from spending done by its employees in their households (IATA, 2017). This kind of contribution is only made possible when the airline is able to grow its business to other global networks, which can be facilitated by advanced globalization in the airline sector.

**Global Tourism Impact on Kenya Airways**

The air transport sector lies at the heart of global tourism. Air travel speed, affordability, and convenience have extended possibilities for global tourism, to which Kenya Airways plays a significant role. Most tourists visiting Kenya to enjoy the culture, diversity of geography, climate and just for leisure spent more than Kshs. 84.7 billion. Approximately 62% of this visitors arrive by air, of which approximately 42% arrive via Kenya Airways. The tourist's
arrivals by air contributed to about 69 000 direct jobs in the tourism sector, which translated to approximately 30 billion directly, 17.8 billion indirectly, and 11.5 billion through the induced supply chain to the Kenyan GDP as summarized in Figure 4.8

Figure 4.8: Visitors by Mode, and Contribution to GDP and Employment  
Source: AFRAA, 2012

Growth in Kenya Airways Networks and Alliances

The globalization of the airline sector has also enabled Kenya Airways to join major global airline networks, and thus, benefit from the alliance training, seamless transfers, and access to lounges, airports, and exchange programs (Bofinger, 2009). Kenya Airways joined the Sky Team in 2005 after it became the first airline in Sub-Saharan Africa (SSA) airline to achieve the IATA Operational Safety Audit (IOSA). Similarly, Kenya Airways was also the first SSA to achieve the International Air Transport (IATA) Safety Audit for Ground Operations (ISAGO) (Sky Team, 2018). The Sky Team alliance was founded in 2000 by Aeromexico, Delta Airlines, Air France, and Korean Air (ibid). Currently, Sky Team consists of 20 airline carrier members that provide travelers with links to more than 177 countries, with 16, 000 flights per day, and over 730 million passengers annually. By being part of Sky Alliance, Kenya Airways has been able to expand to markets that were not possible without the
alliance. The alliance members include Aeromexico, Aeroflot, Argentinas, Air France, Aerolineas, Kenya Airways, Czech Airlines, Air Europa, China Eastern, Alitalia, China Southern, Delta Airlines, KLM, Garuda Indonesia, Korean Air, Saudia, Middle East Airlines, TAROM, XiamenAir, and Vietnam Airlines (Sky Team, 2018).

To maximize on network efficiency and operations, Kenya Airways took advantage of air market liberalization in several countries to enter into code-sharing agreements that allow the transfer and passengers across the airlines, access to airports, and airport loungers (Kenya Airways, 2018). In the aviation, codeshare primarily refers business arrangement between two or more airlines, to share the same flight. In this regard, sharing means the airlines publish and market the partners’ flights on their own airline designator, and flight code/number, as part of the local airline timetable and schedule (Anna Aero Airline Network, 2017). Kenya Airways has been able to benefit from this arrangement with the following airlines: Aeroflot, Air France, Air Namibia, Air Burkina Faso, China Southern Airlines, China Eastern Airlines, Comair, Etihad Airways, Egypt Air, Garuda Indonesia, Jet Airways, Hong Kong Airlines, KLM, Korean Air, Precision Air, LAM Mozambique Airlines, Royal Air, TAAG Angola Airlines, Saudia, and Vietnam Airlines (Kenya Airways, 2018).

4.3 Negative Effects of Globalization of Airline Sector on Kenya Airways

Globally, the airline sector has faced numerous challenges both internally induced and externally induced. Some of this challenges have been a result of pressures exerted by the globalization of the airline sector (Otiso, Derudder, Bassens, Devriendt, & Witlox, 2011). Internal challenges such as bureaucracy, overzealous expansions, poor organizational culture, can be exacerbated by airline globalization. On the external front, regional and international competition can exert pressure on an airline performance and growth. Similarly, other factors such as failure to cope with emerging airline technological changes, poor and old fleet,
volatility in fuels, and operational costs can exert pressure on the growth on an airline, particularly when the sector is experiencing globalization expansion (Oladele, 2005).

4.3.1 High Cost of Operation

Airline operational costs for African are higher in comparison to carriers in the rest of the world. For instance, according to AFRAA (2012) report, fuel in the global airline sector accounts for about 36% of all airline’s operational costs, while in Africa fuel cost ranges accounts for about 45% -55%. Further, the AFRAA report notes that fuel prices in Africa can be twice the world average causing African carriers to lose competitive leverage over global carriers. The Director of Industry Charges, Fuel, and Taxation at IATA, Hemant Mistry, notes that fuel costs are one of the major contributors to lose in revenue by most airlines:

“Countries need to review their jet fuel price policies, first by focusing on becoming more transparent in disclosing hidden cost on jet fuel such tax and fees; second, countries need to eliminate taxes and cross-subsidies following bilateral agreements” (Fortin, 2013: Para, 8)

In this regard, Mistry argues that taxes that are imposed on fuel by Countries increase airline operational costs, and thus impedes on the competitiveness of national carriers. In most cases, airlines are forced to transfer fuel surcharge to clients on tickets as a way of compensating for costs they incur in fuel taxes. According to IATA (2013), most African airlines recover about 40-70% of fuel costs through surcharges, and consequentially, make the ticket prices beyond the means of ordinary African people. Kenya Airways has experienced a share of challenges with fuel volatility. According to CAPA (2018), high fuel costs continue to weigh significantly on the financial performance of Kenya Airways, accounting for 38.5% of total operating costs. For instance, in 2016 Kenya Airways experienced a loss of Kshs. 26.2 billion, in addition to the previous loss of 25.7 billion experienced in 2015. In 2016, 5.1 billion loss was attributable to high costs of fuel, while in 2015, 5.9 billion loss was
attributable to hedging of fuel against high price volatility in the market (Business Daily, 2016). This is summarized in Figure 4.9

![Kenya Airways net losses (Sh Billion)](image)

**Figure 4.9: Kenya Airways Losses FY2015/2016**  
Source: Kenya Airways, 2017

According to the Kenya Business Daily, the link between globalization and volatility in the jet fuels is a result of increased competition in the sector, where, some airlines are able to access cheaper oil subsidies from their governments, making it difficult for airlines without oil subsidies to fry out in losses (Business Daily, 2016). Equally, in 2018, the airline announced a net loss of Kshs. 6.1 billion, of which, management, attributed to the cost of fuel that went up 14% over the same period. When compared to Middle Eastern Airlines such as Emirates and Etihad that have access to low-cost fuel, they have remained profitable over the same period Kenya Airways has been making losses

### 4.3.2 Stringent Bilateral Airline Service Agreements (BASAs)

Bilateral Service Agreements (BASAs) were designed to enable seamless airline operations
between two or more countries. Most Africa states have been operating the bilateral air service agreements (BASAs) that were established after World War II that placed tight regulations on airline fares, market entry and airline capacities. These BASAs often frustrate market growth, force users to pay a price premium, and create a series of vested interests. According to Byasel, (2010), BASAs are bilateral agreements negotiated on four basic principles: First, countries that want to engage in airline traffic rights agree on, and exchange traffic rights in a reciprocal manner, for both commercial and non-commercial exploitation. Under the Chicago Convention of 1944, an airline can enter into BASAs traffic rights if the airline is substantially owed controlled by a given government, companies or individuals.

According to Byasel, (2010), the First Freedom of the Air is the first rights that a country grants to another country entering into BASA agreement. In this case, airlines from country ‘A’ can fly across the airspace owned by country ‘B’ without landing. The second BASA freedom offers right for an airline in the country ‘A’ to make a technical landing in country ‘B’ and vice versa. The term technical landing refers to the ability to stop over to refuel or for any emergency cases, however, with no rights to either drop or pick passengers of cargo or even for non-commercial reasons. The third BASA freedom entails granting rights to an airline in country ‘A’ to pick traffic/passengers and even drop traffic/passengers in country ‘B’; while the fourth BASA freedom grants an airline in country ‘A’ to pick traffic/passengers from country ‘B’ and drop them in country ‘A’ while offering the same reciprocal rights to airlines in country ‘B’. This is the essence of scheduled airline (Cargo and Passenger) operations between countries.

Byasel, (2010), argues that as BASAs regulations continued to evolve, countries operating airlines saw the need to add the fifth BASA freedom. The fifth freedom granted rights to airlines from country ‘B’ to pick traffic/passengers from country ‘A,’ carry the passengers
through country ‘B’ and drop them to country ‘C.’ Let us exemplify this scenario. For instance, Tanzania may grant Kenya (Kenya Airways (KQ) the fifth freedom rights to pick passengers from Tanzania, who are traveling to London (U.K) via Nairobi (Kenya). Likewise, Kenya Airways may be granted fifth freedom rights by British Airways (U.K) to pick passengers destined for Tanzania, but transiting through Nairobi (Kenya).

Due to the political nature, and the effect of globalization, and need for collaboration on international trade, countries began to adopt the ‘Open Sky policy’ developed and championed by the USA. Under this framework, the skies are literally opened for airlines to operate between each other’s open sky policy. Another additional BASA, the sixth freedom, allows, say Kenya Airways to pick traffic to say from Paris, France, and drop them it in Dubai (UAE) and vice versa, without going through the country of origin. As had been indicated by Sachs and Warner, (2015) BASAs often frustrate market growth, force countries to pay unstandardized arbitral price premiums to access and utilize air spaces.

In cases of diplomatic fallout, as has been the case with many African counties, airlines suffer unfavorable BASA regulations and agreements. In worst case scenarios, no freedoms are grated at all (Agwu, 2014). Since Kenya Airways operates in numerous African countries, it has had to deal with this protectionist agreements, forcing the airline to enter into all manner of BASA agreements that might be bad for the fair competitive environment compared to other airlines operating in similar markets without the agreements. Kahn (2005) argues that in as much as the airspace is not a tangible natural endowment upon which States exercise protectionism, it has been used by the airline industries across the globe to impose tariffs and travel restrictions aimed at shielding local markets.

In this regard, when Kenya acceded to the open skies agreement, it means that the government had eliminated any involvement or interference with commercial decisions I regard to Kenya
Airways (Kulundu, 2018). Under the open skies agreement, other Africa airlines have a free hand to operate in Kenya if they are also signatories to the agreement. The challenge with this arrangement for Kenya Airways is that the airline has to compete with other African or global airlines both local and international passengers, yet some of this airlines are wholly owned by governments and subsidized by national governments. Kenya Airways cannot, therefore, compete on a fairground when it has to assume all costs associated with running the airline and at the same time, enhance shareholders value (Sachs & Warner, 2015). For instance, Rwandan Air and Ethiopian Airlines are fully owned by their national governments, yet, because of the open air agreement Kenya has signed, this two airlines can operate freely in the local Kenyan market. Such unfair competition can have significant performance repercussions on Kenya Airways (Kulundu, 2018).

As a result of globalization and liberalization of the airline sector in Kenya, the government signed BASAs with countries like Nigeria, Saudi Arabia, Angola, Canada, India, and Mexico who are able to fly across the airspace Kenyan airspace, land, refuel, pick transiting customers, and also use Kenya major airport facilities. According to Schlumberger (2010), liberalization of Kenya airline sector has included negotiating traffic rights, which included routes that flights from Nigeria, Saudi Arabia, Angola, Canada, India, and Mexico can fly when they enter the Kenyan airspace. These agreements also include the capacity level for the airlines. In this case, agreements have been forged on the number of flights that can enter the Kenya airspace and the number of passengers that can be operated between the bilateral partners.

On the issue of tariffs, Kenya Civil Aviation Authority (2015) does not require airlines to submit prices for a ticket to the authority for approval, each airline operating within Kenya airspace has the liberty to set their own ticket pricing based on the market forces. In as much as this is the trajectory of the Kenya airline space, Kenya Airways have to find not only
survival but also a profitable and sustainable route. According to ICAO (2013), there is a need to relax ownership and control rules within the African States, as a way of enhancing a fair and competitive environment among African carriers. There is a need to enhance regulatory rules, harmonize competition rules while at the same time to protecting consumers from exorbitant pricing. BASAs have enabled Kenya to become a highly competitive market due to the introduction of Low-Cost Carriers (LCC) (Njoya, 2013). The LCC sector in Kenya has evolved significantly; almost a fifth of all domestic seats has increased as follows: 10% in 2001, 27% in 2011 and 23% in 2012 as indicated in Figure 4.10

![Figure 4.10: Kenya LCC Capacity Share (%) of Domestic Seats (2001-2013)](image)

Source (CAPA, 2013)

The challenge with low-cost carriers for Kenya Airways is that they are eating into the local market share that the airline would be enjoying. To consumers, LCC’s are a good thing since they provide an alternative and competitive pricing and schedules that Kenya airways might otherwise not be able or willing to engage.

The emergence of LCCs in Kenya is largely credited to BASAs, and as such, have helped Kenya airline sector grow both domestically and even in the regional markets (Twining-Ward, 2009). Further, World Travel Tourism Center (2012) notes that Kenya economic
growth has primarily been influenced by the growth in the tourism sector, which has been necessitated by conducive and liberalized airline sector that allows tourists to travel across the country both through charted flights and through domestic flights. Similarly, ICAO (2013) notes that liberalization on Kenya airline sector by BASAs has enabled the growing middle class to contribute significantly to the sector.

According to Africa Airline Association (2009), the BASA airline regulation on tariffs in Kenya airline sector are largely influenced by decisions at international forums. In most instances, BASAs in Kenya are modeled after the recommendations by ICAO and the IATA Tariff Conferences. However, local routes within Kenya, and Charter rates and tariffs are guided by the market the forces (Byasel, 2010 & Heinrich, 2009). Before the introduction of Low-Cost Carriers (LCC) in the Kenyan Market in 2007, fares charged by the main Kenya Airways did not reflect the cost of Operations and Tariffs as recommended by ICAO cost guidelines. Equally, before the introduction on LCC, Kenya Airways was regulated by a tariff band with maximum and minimum levels. However, there were no mechanisms to enforce the same making air transport expensive in the periods proceeding 2007 (Ministry of Transport, 2009).

According to Byasel (2010), one of the significant challenges in the in implementing BASAs that enhance a fair playing field in Kenya is lack an effective regulatory framework. As such, the existing competition laws in the Kenya Airline sector are not suitable for the exigencies of the aviation Industry. Equally, effective dispute resolution mechanisms in Kenya airline industry are not clearly defined in accordance with BASAs guidelines under the Chicago Convention of 1944.

Similarly, one of the biggest challenges with BASA’s for African airlines like Kenya is the taxes imposed on the carrier for landing in various African airports (CAPA, 2016). Compared
to global BASA rates, Africa Airports are expensive for African carriers as compared to European or Asian carriers landing on African airports. For instance, international passengers transiting or departing from African Airports are charged taxes of between US$40 to US$85, with Djibouti charging as high as US$89 per passenger (leaving and arriving (AFRAA, 2014). This kind of taxes makes airline tickets expensive for customers originating or transiting through most African states. Currently, Kenya Airways operates a majority (34) of its route in Africa. The net implication is that Kenya Airways has to charge slightly higher fares to compensate for the taxes, as compared to other international airlines operating within the same African markets. The passing and landing charges are highlighted in Table 4.5.

Table 4.5: Passenger Taxes and Charges (US$) at 36 African Airports

<table>
<thead>
<tr>
<th>No</th>
<th>Airport</th>
<th>Int</th>
<th>Reg</th>
<th>No</th>
<th>Airport</th>
<th>Int.</th>
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<th>Airport</th>
<th>Int.</th>
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</tr>
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<td>Ambouli (Djibouti)</td>
<td>85.89</td>
<td>68.71</td>
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<td>Entebbe</td>
<td>40.00</td>
<td>20.00</td>
<td>25</td>
<td>Durban</td>
<td>26.18</td>
<td>19.82</td>
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<tr>
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<td>Accra</td>
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<td>50.00</td>
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<td>30.46</td>
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<td>Conakry</td>
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<td>Malabo</td>
<td>68.02</td>
<td>46.86</td>
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<td>Dakar</td>
<td>38.84</td>
<td>38.84</td>
<td>27</td>
<td>Johannesburg</td>
<td>26.18</td>
<td>19.82</td>
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<td>Abidjan</td>
<td>64.73</td>
<td>25.89</td>
<td>16</td>
<td>Lagos</td>
<td>35.00</td>
<td>35.00</td>
<td>28</td>
<td>Antananarivo</td>
<td>25.84</td>
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<td>Ouagadougou</td>
<td>58.24</td>
<td>38.83</td>
<td>17</td>
<td>Harare</td>
<td>35.00</td>
<td>35.00</td>
<td>29</td>
<td>Bujumbura</td>
<td>25.00</td>
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<td>6</td>
<td>Moroni-Hahaya (Arrival &amp; Departure)</td>
<td>52.89</td>
<td>11.50</td>
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<td>Bamako</td>
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<td>32.37</td>
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<td>Addis Ababa</td>
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<td>Cotonou</td>
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<td>Douala</td>
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<td>26.43</td>
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<td>Saint Denis</td>
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<td>40.00</td>
<td>40.00</td>
<td>24</td>
<td>Cape Town</td>
<td>26.18</td>
<td>19.82</td>
<td>36</td>
<td>Niamey</td>
<td>21.58</td>
<td>21.58</td>
</tr>
</tbody>
</table>


Therefore, in as much as the globalization of the airline industry was supposed to make the airline sector more liberal and more competitive, different aspect of airline operations from a national standpoint confers an advantage to some airlines, while other airlines like Kenya Airways have to bear the brunt and negative effects of globalization (Bigman, 2007).
Compared to other regions, Kenya Airways pays much less in taxes and charges much less compared to what it is charged to access airline markets in African regions. International markets are much friendly compared to African regional markets. For instance, in Muscat, taxes, and levies imposed per passenger is the US $ 13.20, compared to Accra with a levy tax charge of US $ 75. This makes it expensive for Kenya Airways to operate in African airspaces where it has the majority of its route and destinations, compared to other global destinations (IATA, 2011). This is illustrated in Table 4.6

<table>
<thead>
<tr>
<th>Table 4.6: Passenger Tax and Charge Comparison at Selected Airports</th>
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<tbody>
<tr>
<td><strong>Middle East</strong></td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Muscat</td>
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<tr>
<td>Dubai</td>
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<td>Beirut</td>
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4.3.2 Growing International Competition

As Kenya Airways continued to grow and take advantage of the liberalized and globalized airline industry, competition for new routes continue to increase. Kenya Airways has over the years expanded into markets that were not possible in 1977 during the airline inception, and a period when the sector was much more closed than globalized (Byasel, 2010). For instance, in 2011, Kenya Airways was offering 1, 500 on the Nairobi-Dubai route, however, in 2013, Kenya Airways increased the route seats to 2, 200, against the Emirates competition of 4, 000 seats. Similarly, since 2012 when Kenya incursion into the Chinese market was against a stiff competition against Gulf and Asian carriers that were established giants on the route. This includes Emirates, Martinair, Air China, Etihad Airways, China Southern Airlines, China Eastern Airlines, British Airways, Yemen Airways, and Hainan Airlines. Therefore, Kenya
Airways joins seven other Major Middle Eastern and Chinese carriers, with Emirates dominating with 14, 200 one way seats per week as highlighted in Figure 4.11

![Figure 4.11: The United Arab Emirates to China (seats per week, one way)](source)

On the route between Dubai and Hong Kong, Kenya Airways is subjected to stiff competition from Cathay Pacific Airlines, and Emirates who operate a combined seat capacity of 9, 700 against 650 for Kenya Airways. In as much as Kenya Airways enjoys the Nairobi-Bangkok route to itself, it is faced with stiff competition from Cathay and Thai Airways who have a combined 26, 000 seats on the Bangkok-Hong Kong route compared to Kenya Airways of 650 (Innovata, 2015). By increasing the frequency of daily flights to Bangkok-Guangzhou route to 1, 500 seats will still place Kenya Airways a distant third from China Southern and China Eastern Airlines (Innovata, 2015)
One of the ways to fend off competition for Kenya Airways codeshare agreements with significant airlines operating on similar routes as Kenya Airways. On the Abu Dhabi route, Kenya Airways entered into code-sharing of Etihad EY on Kenya Airways flights from Nairobi to 27 African destinations where Kenya Airways commands the vast market. On the other hand, Etihad was expected to place Kenya Airways code KQ on their Asian network through Hong Kong, Guangzhou, Bangkok, Beijing, and other major cities in Asia. Equally, Kenya Airways entered into code share with China Airlines, China Southern and China Eastern Airlines as a way to Chinese access market without hostile competition from the Chinese carriers. The competition structure for Bangkok China route is illustrated in Figure 4.12

Figure 4.12: Kenya Airways Competition on the Bangkok -China Route
(Source: Innovata 2015)
4.3.3 Growing Local Competition

Globalization and liberalization of the airline market had made it possible for local and international carriers to operate in the Kenyan domestic market. For instance, in 2013, eight (8) major international airlines were operating in Kenya’s domestic market. This includes Ethiopian Airlines, KLM, Qatar, Precision Air, Emirates, and RwandAir as indicated in Figure 4.13. Other LCCs include Safarilink, Fly Sax, AirKenya, Fly 540 and Jumbo Jet (CAPA, 2015)

![Kenya total capacity (% of seat) by airline: 25-Mar-2013 to 31-Mar-2013](image)

**Figure 4.13: International Airlines Operation in the Local Market**

Source: CAPA, 2015

Ethiopian Airlines has started weekly flights to Mombasa which is Kenya Airways most profitable domestic route. This means that competition on this route is going to be heightened, and Kenya Airways might lose the leverage it has as the most dominant airline on the same domestic route (Business Outlook, 2018). Additionally, Turkish Airlines and RwandAir also have direct flights to Mombasa. The net effect in the enhanced competition both on the global scale and on the international scale means that Kenya Airways keep getting squeezed in route operational dynamics, and has to enhance efficient operations, and
also increase frequency of new routes to compensate for the competition that has cut out on its dominance at home, and a reduction in international competitiveness.

4.4 Kenya Airways Expansion Strategies in the Era of Globalization

4.4.1 Route Expansion Strategy

In 2011, Kenya Airways developed a 10 years strategic plan dubbed ‘Project Mawingu’ that was supposed to be a launch pad for the airline expansion in the era of globalization. Project Mawingu’ expansion focused on having Kenya Airways venture into North America, Australia, and South America, expand Asia, and Middle East Market (CAPA, 2018). Under Project Mawingu, Kenya Airways was to increase route destinations from 55 (as of 2011) to 115 in 2021. The plan focused on expanding Kenya Airways operations from 45 countries (as of 2011) to 77 countries by 2021. Similarly, the plan envisaged that the development of the airline would see the increase in intercontinental operations from the current 4 to 6 continents with the addition of America and Australia.
Additionally, the expansion strategy will entail new China routes including Beijing, Pudong, Chengdu, Chongqing, Kunming, and Urumqi. In India, the expansion was going to focus on Delhi, Bangalore, Chennai, Hyderabad, and Ahmedabad. Other routes planned for expansion include Toronto Canada, Washington DC, Moscow Russia, Sao Paulo Brazil, Seoul Korea, Perth Australia, Berlin Germany, Kuala Malaysia, Bangladesh, Abu Dhabi UAE, Hanoi Vietnam, and Prague in Czech (Kenya Airways, 2016). The expansion plan was temporarily shelved in 2014 after Kenya Airways began experiencing massive losses due to the turbulent operational environment, and the cost of its expansion strategy. For instance, in 2013, Kenya Airways made a loss of Kshs. 10.8 billion, and worse losses in of Kshs. 26 billion before cutting down the losses to Kshs. 10 billion in 2017 after the airline initiated a restructuring program. This means that the airline will not be able to implement Project Mawingu until it returns to sustainable profitability fully.

### Fleet Expansion Strategy

One of the strategies that were envisioned by Project Mawingu was the expansion of Kenya Airways fleet. For this expansion to be successful, Kenya Airways was to expand its fleet from 31 (as of 2011) to 115 by 2021, which inclusion of buying nine (9) 787-8 Dreamliner’s (Kenya Airways, 2016). This is summarized in Figure 4.15
The expansion strategy targeted investing in both wide body and narrow body aircraft. According to Project Mawingu, Kenya Airways had planned to increase narrow body from 21 in 2011 to 63 aircrafts, while wide body was projected to increase from 10 in 2010 to 44 aircrafts, however in 2016, Kenya Airways was forced to abandon the expansion plan after the airline went through successive years of losses in 2014, 2015, 2016. Kenya Airways was forced to sell off and lease 20 aircraft cutting the airline’s fleet from 59 aircraft to 39 in 2016 and 2016 (Kenya Airways, 2017). The airline was equally forced to sell off London Heathrow Airport morning slot for Kshs. 7.5 billion to Oman Air (Business Daily, 2016), and 5 acres piece of land at Embakasi Nairobi to Kenya Medical Supplies Agency as a way of raising revenue for airline operations (The East African, 2016).

Figure 4.15: Kenya Airways Strategy
(Source: Kenya Airways, 2015)
4.4.3 Airport Expansion Strategy

Airport expansion is one of the strategies adopted by Kenya Airways to in response to the globalization of the airline sector. In 2008, Kenya Airport Authority (KAA) that manages airports in Kenya engaged Louis Berger to develop a National Airports System Plan (NASP) that outlined Kenya airports capacity needs. This involved the analysis of 13 airports including Jomo Kenyatta International Airport (JKIA) that is the operational hub for Kenya Airways (Bates, 2017). The NASP recommend the development of two terminals at Jomo Kenyatta dubbed Greenfield Project. This expansion was supposed to cover 178, 000sqm, with 50 international check-in gates, and 10 domestic check-in positions. The expansion was equally supposed to add 8 remote gates, 45 aircraft stands complete with hydrants, and parking areas, and an apron for aircraft parking, loading, refueling, and boarding. As such, the expansion was geared to transform JKIA into a continental hub.

According to Africa Development Bank (AfDB) when JKIA was constructed in 1978, it had a capacity of 2.5 million passengers per year. However, with globalization and liberalization of the airline market, the capacity has been overshot to more than 6 million passengers. This meant that Kenya Airways using JKIA as its hub, could not remain competitive compared to Ethiopia, Egypt, South Africa and other global airlines, who have larger passenger capacities in their local airport hubs. The KAA started the expansion in 2011, and finalized terminal 1 in 2017, while terminal 2 will be completed in 2020, JKIA will be able to increase the capacity of Aircraft Traffic Movement (ATM) from 72, 700 to 195, 000 aircraft per year. The GFT 1has more Code E (Boeing 777-300ER) and Code F (Airbus 380-800) aircraft. This aircraft pavement will, therefore, be suitable for landing more Boeing 747-400, 767-300ER, 737-800, Airbus A340-600, Embraer ERJ 170LR, and ERJ 190AR (AfDB, 2015). The aircraft parking bay will significantly increase from 37 to 78 bays. This expansion is also set to increase passenger numbers from the current 6 million to 18.5 million. It is therefore estimated that
GFT will be able to make JKIA will be able to have 55% of seating capacity for international flights and 53% for local flights. According to the former Kenya Airways CEO Titus Naikuni:

“…the new expansion and new terminals will make JKIA a transit point for Africa, which will also enhance the growth plan for Kenya Airways” (The Standard, 2014: para 5)

Further, Naikuni noted that the Green Field Terminal (GFT) project was a landmark project geared at transforming Kenya Airways as the airline to fly the African flag. Similarly, JKIA expansion is geared to enhance the current cargo capacity that is estimated at 252,000 tons to more than 500,000 tons by 2021 (Kenya Airways, 2016).

The completed GFT 1 has a Passenger Terminal Complex (PTC) which consists of the following: The central processing building with functional amenities and a hotel; a northwest and northeast piers for passenger loading, and a concrete and steel structure with four level consisting of lounges, departure and entry gates, cafes, exchange bureaus, bank lobbies (AfDB, 2015).

As a result of JKIA expansion, KAA was voted the best improved in Africa during the prestigious 2017 Airports Council International (ACI) Airport Service Quality (ASQ) Awards. JKIA emerged the best improved by region-Africa category. This category is considered as the most comprehensive passenger service-benchmarking program for more than 340 airports worldwide. The recognition is a testament to KAAs commitment to enhancing excellent service at JKIA against increasing globalization in the airline industry. Kenya Airways is the major beneficiary of the JKIA expansion as this allows Kenya Airways to enhance local and international routes from the modern facility (KAA, 2017). Additionally, in 2015, JKIA unveiled new VIP lounges; Simba and Pride, in terminal 1 for first class and business travelers. The lounges went ahead to win the second best lounge
award by SkyTeam passengers behind Taipei in Taiwan. To this, former Kenya Airways CEO Mbuvi Nguze noted:

“…The recognition of Pride and Simba lounges is not just about the facilities, but also a testament to the pride of our customers in the perception of standards of our services, which benefits Kenya Airways” (Business Daily, 2016: Para 14)

Equally, JKIA was voted as the “STAT TIMES” International Award for Excellence in African Air Cargo for 2014 and 2015 in a row. According to KAA former Ag. Managing Director Yatich Kagungo,

“…the STAT TIMES award was validation for KAA and Kenya Airways efforts to improves JKIA’s Cargo section, in addition to excellence in customer service. It is evident that our staff at JKIA have embraced our vision globally competitive airport services and facilities” (KAA, 2016: pg. 2)

For Kenya Airways to remain strategic, competitive and relevant in the globalized airline industry, the airline needs vibrant, world-class airports and associated infrastructure. This is important in that it increased the airline's attractiveness to international carriers, and makes Kenya a regional hub, which will not only increase the number or passengers but tourism, trade, and commerce, which are substantive components of the globalization of the airline industry (Kenya Airways, 2016).

Other KAA airports that have been improved to enhance Kenya Airways ability to cater more to the domestic market as it increases international routes. For instance, in 2012, KAA expanded and upgraded Kisumu International Airport runway to 3, 200 meters, and developed a new terminal building with new terminal building and lounges. In Mombasa, the Moi International Airport has also received repairs to the runway pavement including the lifting of the airfield ground and upgrading airport power, apron, and water supply. In Malindi, KAA has upgraded Malindi airport with the construction of a new passenger terminal, with plans underway to increase the runway from 1, 500 meters, to 2, 500 meters. Additionally, the military handed over Wajir Airport to KAA, which has enhanced domestic
travel to the region. The Ukunda Airstrip is currently being upgraded to have the runway length increase from the current 1,100 meters to 2000. In Lamu, the Manda Airstrip has been upgraded by construction and extension of a new runway from 1,000 meters to 2,000 meters. The Eldoret Airport infrastructure had sufficient runway length, which meets international standards for large aircraft and cargo. Finally, KAA has approved an upgrade master plan for Wilson Airport that will see the construction of a new passenger terminal, a control tower, and apron expansion (Kenya Airways, 2017; African Aerospace, 2017).

4.5 Chapter Summary

This chapter has presented the study findings based on the research objectives. The main findings on the positive impact of globalization on the airline industry in Kenya are that there has been an increase in a number of both domestic and international airlines operating in Kenya. Currently, 14 airlines operate in Kenya. The other major finding is that Kenya Airways has seen an increase in passenger volumes from 2.6 million passengers in 2007 to 4.4 million passengers as per December 2017. This has resulted in the recruitment of more employees, which has equally and positively impacted the economy. In 2000 Kenya Airways had 2,338 employees, however, due to increase in its operational services, this number increased to 4,834 in 2012, before falling back to 3,582 in 2017.

One of the other significant findings on the impact of globalization on Kenya Airways is the increase in seat capacity from 6.8% to 12% in 2016. Kenya Airways has utilized globalization of the airline sector to effectively expand to China, UAE, France, Netherlands, Hong Kong, Vietnam, India, Thailand, in addition to increasing its routes across Africa. The airline is also in the process of launching a weekly flight to New York, North America starting October 2018. Globalization has seen Kenya Airways annual revenues increase from
Kshs. 85 billion in 2011 to Ksh 116 billion in 2016, despite the net losses that were incurred between 2015 and 2017.

Globalization has also had a share of negative impact on Kenya airline industry and on Kenya Airways. The significant findings on the negative impact show that high costs of operations have had a substantial financial impact on Kenya Airways. Fuel alone accounts for 38.5% of total operating expenses. In 2016 Kenya Airways experienced a loss of Kshs. 26.2 billion, in addition to the previous loss of 25.7 billion experienced in 2015. In 2016, 5.1 billion loss was attributable to high costs of fuel, while in 2015, 5.9 billion loss was attributable to hedging of fuel against high price volatility in the market. Another impact of globalization is the stringent Bilateral Service Agreements (BASAs) that often frustrate market growth, force users to pay a price premium, and create a series of vested interests. Finally, the stiff competition brought about by the globalization of the airline industry has seen an increase of domestic competition by the entry of 6 local airlines into the market, while international airlines such as Turkey Airline, RwandAir, Ethiopian Airline start plowing into domestic routes. On international routes, Kenya Airways route between Dubai and Hong Kong is subjected to stiff competition from Cathay Pacific Airlines, and Emirates who operate a combined seat capacity of 9, 700 against 650 for Kenya Airways. Cathay and Thai Airways who have a combined 26, 000 seats on the Bangkok-Hong Kong route compared to Kenya Airways of 650

Finally, major strategies employed by Kenya Airways under Project Mawingu, Kenya Airways was to increase route destinations from 55 (as of 2011) to 115 in 2021. One of the strategies that were envisioned by Project Mawingu was the expansion of Kenya Airways fleet. For this expansion to be successful, Kenya Airways was to expand its fleet from 31 (as of 2011) to 115 by 2021. Airport expansion is one of the strategies adopted by Kenya Airways to in response to the globalization of the airline sector. The KAA started the
expansion in 2011, and finalized terminal 1 in 2017, while terminal 2 will be finalized in 2020. JKIA will be able to increase the capacity of Aircraft Traffic Movement (ATM) from 72,700 to 195,000 aircraft per year, which will see an increase in passenger numbers from the current 6 million to 18.5 million.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSION, RECOMMENDATIONS

5.1 Introduction

This chapter presents the study discussion, conclusion, and recommendations based on the findings of each research objective. The entire study summary is presented first, which is followed by a conclusion, and recommendation for each research objective.

5.2 Summary of the Study

The main objective of this study was to examine how globalization had affected the development of the airline industry by using Kenya Airways as a case study. The specific objectives included the following: To explore the positive impact of globalization on the development of Kenya Airways; To examine the negative impact of globalization on the development of Kenya Airways; To examine the effect of globalization on Kenya Airways market expansion strategies.

This research was a case study on Kenya Airways. Both qualitative and quantitative methods were adopted to examine how globalization had positively and negatively impacted Kenya Airways. The main data sources were Kenya Airways annual reports, strategic plan, Africa Aviation reports, Centre for Aviation annual reports, IATA annual reports, Innovata, in addition to local and international newspapers writings on globalization. Data was analyzed using content analysis by grouping emerging themes per each research objective and presenting them in a narrative form, and also using Tables and Figures.

The first research objective sought to examine the positive impact on the globalization of the airline industry in Kenya. The main findings on the positive impact of globalization on the airline industry in Kenya are that there has been an increase in a number of both domestic and international airlines operating in Kenya. Currently, 14 airlines operate in Kenya. The other
significant finding is that Kenya Airways has seen an increase in passenger volumes from 2.6 million passengers in 2007 to 4.4 million passengers as per December 2017. This has resulted in the recruitment of more employees, which has equally and positively impacted the economy. In 2000 Kenya Airways had 2,338 employees, however, due to increase in its operational services, this number increased to 4,834 in 2012, before falling back to 3,582 in 2017.

The second objective examined the negative impact of globalization on the airline industry in Kenya. The major findings on the negative implications show that high costs of operations have had a significant financial impact on Kenya Airways. Fuel alone accounts for 38.5% of total operating costs. In 2016 Kenya Airways experienced a loss of Kshs. 26.2 billion, in addition to the previous loss of 25.7 billion experienced in 2015. In 2016, 5.1 billion loss was attributable to high costs of fuel, while in 2015, 5.9 billion loss was attributable to hedging of fuel against high price volatility in the market. Another impact of globalization is the stringent Bilateral Service Agreements (BASAs) that often frustrate market growth, force users to pay a price premium, and create a series of vested interests. Finally, the stiff competition brought about by the globalization of the airline industry has seen an increase of domestic competition by the entry of 6 local airlines into the market, while international airlines such as Turkey Airline, RwandAir, Ethiopian Airline start plowing into domestic routes. On international routes, Kenya Airways route between Dubai and Hong Kong is subjected to stiff competition from Cathay Pacific Airlines, and Emirates who operate a combined seat capacity of 9,700 against 650 for Kenya Airways. Cathay and Thai Airways who have a combined 26,000 seats on the Bangkok-Hong Kong route compared to Kenya Airways of 650.

The third research objective examined expansion strategies put in place by Kenya Airways cushion itself from adverse effects of airline industry globalization. The findings show that
essential strategies employed by Kenya Airways in the era of globalization include the Project Mawingu strategic plan, which seeks to increase Kenya Airways route destinations from 55 (as of 2011) to 115 in 2021. One of the other strategies envisioned in Project Mawingu plan is the expansion of Kenya Airways fleet to cater for the airline global expansion plan. For this expansion to be successful, Kenya Airways envisions to expand its fleet from 31 (as of 2011) to 115 by 2021.

Airport expansion is one of the strategies adopted by Kenya Airways to in response to the globalization of the airline sector. The KAA started the expansion in 2011, and finalized terminal 1 in 2017, while terminal 2 will be finalized in 2020. JKIA will be able to increase the capacity of Aircraft Traffic Movement (ATM) from 72,700 to 195,000 aircraft per year, which will see an increase in passenger numbers from the current 6 million to 18.5 million. Other airports including Kisumu, Mombasa, Wajir, Malindi, and Wilson have undergone significant expansion and modernization to enhance air transport and cater to the growing air-transport sector in Kenya. Kenya 19 airports currently have a growth and expansion rate of 4.6% as a result of development in the airline industry in Kenya.

5.3 Discussion

5.3.1 Positive Impact of Globalization on Development of Kenya Airways

One of the major findings of this study was that globalization of the airline industry in Kenya has had a positive impact on the development of the airline industry in Kenya, and also the development of Kenya Airways. The positive impacts include the expansion of global airline markets to which other local and international airlines can access. For Kenya Airways, this means the expansion in passenger numbers, resulting in the expansion of the airline's annual revenues. This finding is in line with the arguments by Johnson and Scholes (2002) who noted that globalization of the airline sector was a global economic strategy of introducing
worldwide markets to local airlines, and national carriers, by enabling them to gain access to the global market arena. Similarly, Grinin and Korotayev, (2012) had argued that the positive impact of globalization is the ability to enhance accessibility of air transport system to millions who would otherwise lack access to such services. Examining the findings on Kenya Airways operations have revealed that the airline has made significant impact and incursion into Africa domestic making, increasing presents African routes to 42. Therefore, it could be argued that globalization has enabled Kenya Airways not only to access international markets outside Africa but Africa benefits from airline markets within the continent. Based on the findings of this study, Kenya Airways passenger numbers for the West African route increased by 26% by June 2016, a significant accomplishment that will enable the airline to return to profitability following 2014/2017 performance turbulence. For the Central African route, there was a recorded 20% increase to 44, 887. Equally, the North African route opened up marginally (2%) for Kenya Airways to increase passengers on the route to 48, 628 while increasing capacity for the African route by 15%. This is a result of the airline market globalization. This finding confirms the arguments by Button (2009) who noted that globalization had had a profound effect on the international air transport industry, not just on the demand side, but also on the supply side. For instance, demands in global airline markets have led to significant shifts with major global airline penetrating deeply in developing markets.

One of the other positive impact established by this study is the ability for Kenya Airways to leverage on strategic alliances with other major airlines to access markets that would have otherwise been difficult to access. This in also in line with Abeyratne (2008) who had noted that one of the advantages of globalization in the airline industry for developing countries is in join well-established airline network teams, and by extension, benefit from their expertise, and networks in terms of new markets. In this regard, Kenya Airways joining of Sky Team
grants the airline access to Sky Team network, as is the case with Ethiopian airlines joining Star Alliance. The case for globalization means that the highly established and highly skilled airlines do establish a higher threshold for competitiveness that in most instances, disadvantages lowly developed airlines. As such, relying on major highly established network partners like SkyTeam enables Kenya Airways to enhance the development of the airline in new route expansions (Tabb, 2003).

5.3.2 Negative Impact of Globalization on Development of Kenya Airways

This study sought to examine the negative impact of globalization on the development of Kenya Airways, and the airline sector in Kenya. The major findings show that there are several negative impacts that has resulted in the globalization of the airline sector in Kenya, and also for Kenya Airways. For instance, the globalization has resulted in a high increase in operational costs such as fuel, staffing, and purchase of aircraft. This finding was in line with the findings of AFRAA report that noted fuel prices for African carriers the as a major impediment to airline development and growth. The report had further indicated that fuel for African carriers could be twice the world average causing African carriers to lose competitive leverage over global carriers. The finding of this study has noted that Kenya Airways has experienced a share of challenges with fuel volatility impacting negatively on the airline development. The reasons as to why fuel costs have a significant negative impact are that they constitute about 38.5% of total operating costs. The impact of fuel volatility has been confirmed by the 2016 Kenya Airways losses of Kshs. 26.2 billion, in addition to the previous loss of 25.7 billion experienced in 2015.

This study to a large extent, confirms arguments made by Khor (2001) who had noted that one of the leading reasons as to why globalization lacks tangible benefits is the increase in economic loses for developing countries, social dislocation and loss of culture, spread of
capitalism and wealth inequality, and enhanced environmental degradation in developing countries. The financial losses at Kenya airways can be attributed to fuel volatility due to globalization. It could be argued that countries in the South do not adequately benefit from globalization because of technological variance between the North and South. Low prices exportation of South raw material resources vis-a-vis importation of high priced North product, enhancing the balance of payment and debt for countries in the Southern bloc. This can be interpreted to mean that liberalization of airspaces as an extension of globalization, has to a large extend stifled developing markets for economic gain (Grinin & Korotayev, 2012). In as much as this argument is debatable, the benefits of globalization do sometimes outweigh the negative impact, and therefore, globalization of the airline sector should not be condemned it total to have been bad for Kenya Airways. Bofinger had argued that globalization of aviation airspaces was driven by developed states which determine to a large extent how multilateral agreements on airspaces are done. In turn, leverage to assess the structure of multilateral agreements provides developed states with an unfair advantage over developing states. In most instances, aviation policies, processes, regulations, licensing and multilateral agreements are pushed by ICAO, whose composition and structure is western. The proponents of anti-globalization in the airline sector point to the democratic deficit in decision-making processes driven by an international organization such as the ICAO (Tabb, 2003). However, the findings of this study have not established the existence of bias towards developing airline by ICAO. Therefore, it could be the case that developed countries have highly developed airline sector that has or experience the minimal impact of globalization volatility as compared to developing country airlines such as Kenya Airways.

The findings of this study have established that BASAs still stifle free and fair competition in the airline industry, and as such, am an impediment for developing countries to fully realize the benefit of the globalization of airline industry. Kenya Airways has had to sigh stringent
BASAs to gain access to Africa markets, which other global airline carriers are not subjected too. In most instances, BASAs frustrate developing countries to gain access and compete fairly in the airline transport industry.

5.3.3 Kenya Airways Expansion Strategies in the Era of Globalization

This study sought to examine expansion strategies Kenya Airways had put in place as a mechanism to deal with the globalization of the airline sector. The findings show that major strategies employed by Kenya Airways in the era of globalization include Project Mawingu strategic plan, which seeks to increase Kenya Airways route destinations from 55 (as of 2011) to 115 in 2021. One of the strategies that were envisioned by Project Mawingu was the expansion of Kenya Airways fleet. This finding aligns with a study by Airport Watch (2008) that noted that one of the major challenges facing African airlines was poor airport infrastructure. Poor Airport Infrastructure has a negative impact in the development of the airline industry, but robust well-designed and established airports do enhance airline industry development. By investing in 19 airport expansions, Kenya airline industry is set for enhanced growth. JKIA is a hub for Kenya Airways, therefore, expanding and modernizing JKIA benefits Kenya Airways directly. Lack of a good airport hub weakens an airline ability to develop mutually beneficial BASAs with other players in the globalized airline industry (Schmitt, 2004).

The findings of this study show that by expanding JKIA, the airport will be able to increase the capacity of Aircraft Traffic Movement (ATM) from 72,700 to 195,000 aircraft per year, which will see an increase in passenger numbers from the current 6 million to 18.5 million. The implication of this is that majority of these passengers travel via Kenya Airways, which means that Kenya Airways will be the principal beneficiary of the airport expansion. Doganis (2001) had noted that high quality, speed, and reliability in the air transport sector has largely
been driven by globalization. In this regard, airlines and the air travel infrastructure must keep pace with the ever-changing demands for its services derived from competition from other global players. Ultimately, the survival or thriving of the airline industry is predicated upon specific firms’ ability to adapt to sectoral change. The more Kenya Airways adopts to the dynamic airline globalized environment; the more viable, profitable, and sustainable the airline will become.

This study found that joining established global airline network alliances was one of the strategies that have been employed by Kenya Airways. The implication of joining Sky Team means that Kenya Airways will have a link to more than 177 countries, with 16,000 flights per day, and over 730 million passengers annually. Similarly, being part of SkyTeam Alliance, Kenya Airways will be able to expand to markets that were not possible without the alliance. Anna Aero Airline Network (2017) had noted SkyTeam membership’s accord Kenya Airways ability to access code sharing with other 20 global airlines. Other airlines in the alliance are therefore required to publish Kenya Airways flight code/number, as part of the local airline timetable and schedule, within markets where they share routes. This reduces undesirable competition while at the same time, enhancing Kenya Airways penetration into international-local markets. This is in line with Anna Aero Airline Network (2017) that noted the importance of code sharing agreements as the ability to transfer passengers across the airlines, access to airports, and airport lounges.

5.4 Conclusion

5.4.1 Positive Impact of Globalization on Development of Kenya Airways

This study sought to examine the positive impact of globalization on the airline industry on the development of Kenya Airways. The findings show that positive impacts include an increase in domestic routes, international routes, increase in passenger numbers, strategic partnerships, and increase in revenue, employees and airport infrastructure. This study
concludes that despite the negative effects of globalization, Kenya Airways has benefited and developed significantly from the globalization of the airline sector.

5.4.2 Negative Impact of Globalization on Development of Kenya Airways

This study sought to examine the negative impact of globalization on the airline industry on the development of Kenya Airways. The findings show that negative impact of globalization of the airline sector on the development of Kenya Airways includes high costs of operations, high costs of fuel, increased domestic and international competition, and restrictive and stringent BASA agreements. This study concludes that the high fuel costs and increased competition have been the most severe on the development of Kenya Airways. High fuel costs and competition resulted in Kenya Airways losses between 2015 and 2017.

5.4.3 Kenya Airways Expansion Strategies in the Era of Globalization

This study sought to examine Kenya Airways expansion strategies in the era of globalization and how these strategies have helped the airline to cope with the pressure of globalization. The findings show that route expansion, Kenya Airways fleet expansion, airports expansion and modernization and strategic alliances have been the strategies adopted by Kenya Airways. This study concludes that route expansion within the African market has been the most effective in dealing with globalization. Equally, strategic alliances and airport modernization have enhanced the development of Kenya Airways.

5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 Positive Impact of Globalization on Development of Kenya Airways

Since this study has established that increase in domestic routes, increase in international routes, increase in passenger numbers, enhanced strategic partnerships, an increase in revenue, employees, and airport infrastructure was positive development at Kenya Airways as a result of globalization of the airline sector, this study recommends that Kenya Airways
should invest significantly in African routes since they have had the most positive impact on
the airline. Kenya Airways should also finalize the expansion of JKIA terminal 1B, and 1C, to allow for more airport capacity at JKIA since this has a direct benefit to Kenya Airways. On international routes, Kenya Airways should map out strategic routes with more revenue output and enhance strategic alliances with SkyTeam members

5.5.1.2 Negative Impact of Globalization on Development of Kenya Airways
This study has established that negative impact of globalization of the airline sector on the
development of Kenya Airways includes high costs of operations, high costs of fuel, increased domestic and international competition, and restrictive and stringent BASA agreements. To mitigate this negative impacts, this study recommends that: On high costs of fuel, Kenya Airways should engage in fuel hedging that is pegged 5% volatility margins above and below the market rate. This will cushion the airline from expensive hedging losses incurred in 2014 and 2015; while at the same time, provide lower fuel rate should the rates increase towards 5%. On domestic and international competition, Kenya Airways should focus on providing a quality and high-class services while using incentives such as promotional pricing, favorable schedules with minimal delays, in addition to high-quality training for the crew members. This will enhance make Kenya Airways as the airline of choice both on local and enable it to compete effectively with global airline giants. On BASAs, Kenya Airways should engage the government to spearhead bilateral agreements that offer Kenya Airways most fourth and fifth landing rights, in addition to minimal taxes and fees.

5.5.1.3 Kenya Airways Expansion Strategies in the Era of Globalization
This study sought to examine Kenya Airways expansion strategies in the era of globalization and how these strategies have helped the airline to cope with the pressure of globalization. The findings show that route expansion, Kenya Airways fleet expansion, airports expansion
and modernization and strategic alliances have been the strategies adopted by Kenya Airways. This study recommends that KAA should fast track finalization of the JKIA airport expansion and modernization so as to provide Kenya Airways a functional port for enhanced passenger transfers and travel across Africa and to other continents. ON strategic alliances, Kenya Airways should leverage the SkyTeam membership to access markets and airport routes that can enhance revenue at minimal operational costs.

5.5.2 Recommendation on Contribution to Knowledge

The findings of this study have established that globalization has imposed both negative and positive effects on the growth and development of the airline sector in Kenya, and more so, on Kenya Airways. Some of the knowledge generated from this study is that the ability to effectively hedge airline jet fuel can result in airline profitability and growth, but hedging is not a panacea for poor operation, and stiff competition from other industry players. Equally, as established by this study, airline growth in passenger numbers and markets does not necessarily impute development. In as much as Kenya Airways has benefited significantly from globalization, this has not been without repercussions. Growth and development of airline has to flow in tandem with internal leadership, management, and airline operations.

The findings of this study have also established that growth and expansion strategies such as the Mawingu Project by Kenya Airways does not always yield desired results when poorly executed. Airline expansion strategies do not work in isolation of effects of globalization. Blanket application of ambitious expansion strategies inconsistent with strategy development models is mostly a recipe for failure. Mawingu project strategy design failed to anticipate effects of globalization on airline development, both from internal perspective and external perspective, such as availability of competitive airline infrastructure, visionary and astute leadership, and effective risk management and mitigation. When compared to other successful airlines in Africa such as the Ethiopian Airline, Kenya Airways has over the years
failed short of effective and visionary leadership that can drive growth and expansion. However, Kenya Airways current leadership and turn-around strategy might provide growth and development solutions the airline desperately needs. This is yet to be researched. In the next 5 years, studies on this subject should be able to enumerate whether Kenya Airways could rise from loss making slump, into vibrant growth and development as experienced by Ethiopian Airlines.

5.5.3 Recommendations for Future Studies

This study has examined the impact of globalization on the airline industry on the development of Kenya Airways. The key objectives that were examined include the positive impact of globalization on development; the negative impact of globalization on development; and the effect of globalization on Kenya Airways market expansion strategies. These factors are not exhaustive in explaining the development of Kenya Airways in the era of globalization. Organizational factors and country-specific factors should be examined in future studies, particularly their impact on development airline industry.
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