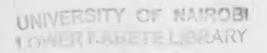
FIVE FORTY AVIATION LIMITED

BY

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A Management Research Project Submitted in Partial Fulfillment for the Award of the Degree of Master of Business Administration School of Business, University of Nairobi

August, 2009

DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

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Date 12/11/2009.

This research project has been submitted for examinations with my approval as university supervisor

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Signature

Date /2

DEDICATION

To God for all His Guidance and strength

To my late father. To my mother, brother and sisters.

Thank you for the love, joy and vitality that you give to my life.

ACKNOWLEDGEMENT

I am truly grateful to the Lord Almighty for having seen me through the entire Masters programme and giving me the strength, courage and wisdom to continue with the course even when times were rough.

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I thank my late dad, mum for having instituted in me the importance of education and thank them for their commitment and work to ensure that I and my siblings acquired the education that we earnestly needed. May God grace be with them.

Whereas I acknowledge input from all these persons in the research project, I take responsibility of any deficiencies and flaws therein.

ABSTRACT

In the recent past, the business environment has experienced an upsurge in competition. Investors across industry have undertaken advantage of a liberalized environment to move the competitive scales higher thereby increasing the number of business participants in the market arena. The aviation industry which has hitherto enjoyed a near monopoly especially by Kenya Airways has not been spared. Many players have entered this industry including Five Forty Aviation Limited, Jetlink, Air Kenya and many more others. Five Forty Aviation must thus come out not only to defend its survival but also create a sustainable competitive advantage for itself. In its quest to remain competitive Five Forty Aviation Limited has engaged highly skilled and trained staff, increased advertisements and publicity, provided a wide range of services to the clients in order to retain their loyalty and automated their business processes.

The study was conducted in the period between May-October 2009 with the objective of determining the competitive strategies adopted by Five Forty Aviation Limited and the challenges experienced in adoption of these strategies. The research was a case study and data was collected using structured interview guides with questions sent out to seven(7) heads of departments at Five Forty Aviation namely finance, information system, human resources administration, ground handling, technical ,flight operations, commercial and the chief executive officer. From the study it was found out that Five Forty Aviation Limited uses more of Porters generic strategies of cost leadership, differentiation and focus strategies. These were found to be more pronounced. However, the major challenges facing implementation of these strategies were found to be increased competition, meeting and maintaining international air transport association requirements, imitation from other airlines, financial challenges and rapid shifts in interest rates. The result of this project will be invaluable to the company, researchers and investors.

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CHAPTER ONE

INTRODUCTION

1.1 Background

Globalization is a powerful real aspect of the new world system that represents one of the most influential forces in determining the future course of the planet (Paisecki, 2004). It has had significant impacts on all economies of the world with major effects on efficiency, productivity and competitiveness (Intriligator, 2001). Globalization and liberalization of world economies has intensified competition through: worldwide spread of computers, faxes, mobile phones, introduction of the internet and e-commerce (Hewett, 2002). Globalization of companies is continually growing in response to the changing environment of international trade. This accelerating trend is as a result of global consumer convenience in social economic, demographic characteristics, habits and culture (Intriligator, 2001).

The changing global environment has led to more competition, increased product choice, increased customer demand, lower prices, product innovations and information technology (Johnson & Scholes, 2001). According to Kotler (2006), consumers have become more educated and informed more than ever before and they have the tools to verify companies' claims and seek out superior alternatives. Companies face intense competition from domestic and foreign brands which is resulting in rising promotion costs and shrinking profit margins. Due to changes in the market place, companies must cope with the dynamic environment in order to survive (Adcock et al, 2001). In such a liberalized economy it is therefore imperative that firms come up with sound competitive strategies if they are to survive in this turbulent market environment. It is for this reason that the study intends to identify the competitive strategies used by the low cost airlines in Kenya in order to have a competitive edge over their counterparts in the market.

The airline industry in Kenya has grown in leaps and bounds since liberalization in the early1990s. Air travel can now be categorized into two High Cost and Low cost airlines. There exists a cut throat competition between high cost airline and the low cost airline, the low cost airline is apparently coming up with competitive strategies to counter the effect of High cost airline. According to Paisecki (2005), when the Kenyan economy was liberalized in the early 1990s, several major industries that had operated as monopolies suddenly came face to face with unexpected competition. Currently there are many players in the market which has resulted to reductions of market shares of companies as well as profits (McCarthy et al, 1996).

In today's turbulent business environment, managing both internal resources and challenges posed by the external environment is essential in the survival of any given organization. To deal effectively with matters that affect growth and profitability executives employ management processes that they believe will position a firm optimally in its competitive environment. Competition denotes the existence of firms that try to sell identical products/services to the same group of customers. A firm's competitors may change over time in terms of their characteristics, strategies and strategic focus due to environmental factors that affect the structure of the industry (Guiltinan & Paul, 1994).

With changing business environment, firms are finding it increasingly difficult to find industry environments in which there are good enough conditions that allow a rate of return above the competitive level. Competitive strategies provide framework for the firm to respond to the various changes within the firms operating environment. Firms also develop competitive strategies that enable them develop strategic initiatives and maintain competitive edge in the market (Grant, 1998, MacMillan, 1998).

1.1.1 The Concept of Competitive Advantage

Sources of competitive advantage include high quality products, superior customer service and achieving lower costs than rivals. To succeed in building a sustainable competitive advantage, a firm must try to provide what buyers will perceive as superior value. This entails either a good quality product at a low price, or a better quality product that is worth paying more for.

The concept of competitive advantage emerged in 1985 when Porter discussed the basic types of competitive strategies firms can posses (low-cost or differentiation) to achieve sustainable competitive advantage. Barnley (1991) argues that a firm is said to have sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy. Sustainable competitive advantage is the prolonged benefit of implementing some unique value-creating strategy not simultaneously being implemented by any current or potential competitors along with the inability to duplicate the benefits of this strategy.

Prahalad and Hamel (1990) define a core competence as an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity. They further explain that a core competence has three characteristics first it provides access to a wide variety of markets, secondly it increases perceived customer benefits and lastly it is hard for competitors to imitate. The core competence provides a base on which firms are able to achieve competitive advantage.

Hunt and Morgan(1995) propose that potential resources can be most usefully categorized as financial, physical, legal, human, organizational, informational and relational. Prahalad and Hamel (1990) suggest that firms combine resources and skills into core competencies loosely defined as that which a firm does distinctively well in

relation to competitors. Therefore firms may succeed in establishing a sustainable competitive advantage by combining skills and resources in unique and enduring ways. By combining resources in this manner, firms can on collectively learning how to coordinate all employees' efforts in order to facilitate growth of specific core competencies. Porter (1980) has hypothesized why some nations are more competitive than others. As well as being able to successfully manoeuvre through the environment, he identified that the foundation of success lay in the "diamond" of "home" advantage.

To successfully launch an international challenge he identified four "home" prerequisites. These are: the maximum use of endowed resources (natural and human), the forming of domestic networks to fully exploit these resources, domestic demand and finally an industry and environmental structure in order that these forces can thrive. In Porter's analysis, industry competitors can be threatened by new or potential entrants and substitutes. In systems, barriers to new entrants can exist as well as barriers to international competitiveness: these barriers can be related to technical characteristics of commodities, perish ability, bulkiness, production characteristics, economies of scale, and laws, rules and standards.

Bharadwaj (1993) suggest that competitive advantage can be developed from particular resources and capabilities that the firm possesses that are not available to competitors. The transformation of available skills and resources into a strategic position can only take place under conditions that provide a customer benefit and normally requires the transformation of multiple competitive methods. The ability to implant a cost leadership, differentiation, or focus strategy is dependent on a firm's ability to develop a specific set of competitive methods. This becomes the basis for the achievement above.

1.1.2 The Five Forty Aviation Limited

Five Forty Aviation Limited (FLY 540) is a domestic low cost airline based in Nairobi. It operates under the brand name, FLY 540. It operates scheduled passenger domestic, international and freight services. Five Forty Aviation limited was incorporated on the 11th January, 2006 with Lonrho Africa as a major investor in the company paying Usd 1.5million for 49% stake in the company.51% of the remaining stake is owned by the management of the company (Five Forty Aviation limited).Lonrho Africa through its chairman and chief executive officer, Mr. David Lenigas controls the board of the airline as its chairman, Mr. Don Smith as its Chief executive officer.

The vision of the firm is to deliver a safe and secure operation with a user friendly product which offers good value and reliable service for all customers. The partnership of lonrho and five forty aviation limited has led to the establishment of the first premier low cost airline in East Africa: FLY 540. The partnership remains focused on delivering the first International Standard Pan African Airline that provides quality regional distribution for International carriers flying into Africa and the ability for passengers in Africa to travel regionally North to South and East to West. Significant progress has been made on establishing the three strategic hubs that will provide the backbone of the Five Forty Aviation Limited Pan African Network, Kenya, Angola and Ghana. The organization structure comprises of seven (7) departments each headed by director reporting to the chief executive officer: Finance, Information Systems, Commercial, Technical, Human Resources and Administration, Flight Operations and Ground Handling.

Five Forty Aviation Limited (FLY 540) started operation between Nairobi and Mombassa on November, 24 2006. The service initially operated twice daily using 48 seater Aircraft. The Airline has since then successfully developed to become the second largest carrier in Kenya after the national Airline Kenya Airways, carving up to 20,000 passengers a

month within the domestic market. The airline operates Jommo Kenyatta International Airport as its hub with a modern turbo-prop aircrafts which burn half of the fuel of jet aircraft thus conserving greatly on environment. The Airlines crew and engineering team are professionally trained and certified to International Civil Aviation Organization Standards.

Five Forty Aviation Limited (FLY 540) became cash positive in its first year establishing itself as the premier private passenger airline servicing the domestic market in Kenya. Currently Five Forty Aviation Limited (FLY540) offers scheduled passenger services from Nairobi to Lamu, Kisumu, Mombasa, Eldoret, Maasai Mara, Lodwar, and Lokichogio. In January 2008, Five Forty Aviation Limited (FLY 540) established new routes to Uganda, Tanzania, Sudan and Zanzibar. This is in line with its Pan African expansion ambitions.

1.2 Statement of the Problem

In order to survive in the competitive environment, it becomes necessary for the threatened Low cost airlines to be aggressive in their search and development of strategies that provide competitive advantage as they step up defensive strategies to protect their competitive advantage held. The stiff competition among the airlines and the entry of new players into the industry necessitate the design of competitive strategies to guarantee their performance. Successful strategies lead to superior performance and sustainable competitive advantage.

A number of studies have been done on competitive strategies but under different contexts. Wacuka (2007) conducted a study on the competitive strategy adopted by the car dealers in Nairobi and her findings were; quality service delivery to customers, competitive pricing, quality products and discounts. The findings of this study may not be generalized to this study for the reason that its focus was in the motor vehicle

industry and not the airline industry. Ndumbai (2003) conducted a study on the competitive strategies applied by the retail sector of the pharmaceutical industry in Nairobi. He documented that the various competitive strategies used by the pharmaceutical industry were as follows; discounts, competitive pricing and quality products and services to the clients. The findings of the study too may not be generalized to this study due to the fact that it was conducted in a pharmaceutical industry which is a product industry while our study focuses on a service industry. Warucu (2001) documented that the commercial banks in Kenya leverage them selves in the industry by offering a diversified range of products to the customers. Innovation, quality services and technological advancement were also found to be the main drivers to positioning in the market. There is need to formulate a study among the low cost airlines in Kenya specifically to understand the nature of competition amongst the airlines, low cost strategies employed, challenges in implementation of these strategies and how airlines responds to these challenges. The proposed study therefore intends to bridge this gap by establishing the competitive strategies adopted by the Five Forty Aviation Limited (Fly 540) airline company.

1.3 The Objective of the study

The objective for this study was to determine the competitive strategies adopted by Five Forty Aviation Limited (Fly 540) and the challenges faced in adopting these strategies.

1.4 Importance of the Study

The study will act as a guide to Airlines top management in their steps towards developing competitive advantage and strategic positioning in the Air travel industry. The study will also be a reference material to such managers. The findings of this study will be a reference material for future researchers and academicians.

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview of Strategic Management

In today's turbulent business environment, managing both internal resources and challenges poised by the external environment is essential in the survival of any given organization. To deal effectively with matters that affect growth and profitability, executives employ management processes that they believe will position a firm optimally in its competitive environment (Pearce & Robinson, 2007). Strategic management plays a critical role in facilitating the deployment of a firm's resources in an efficient manner to facilitate the optimization of long term performance of the firm (Bennet, 1999). Strategic management involves planning, directing, organizing and controlling a company's strategy related to decisions and actions (Pearce and Robinson, 1991).

Strategic Management can be seen as a matter of essential economic analysis and planning. It can also be seen as a matter of organizational decision making, within a social, political and cultural process (Johnson and Scholes, 1993). Strategic management involves taking a view of the whole organization, its place in the it's environment, its values and culture, its key purpose, its direction and its strategic choice for the better future. Strategic management is a matter of bridge building or mapping the route between the perceived present situation and the desired future situation (Burnham, 1994).

The strategic management process comprises at least five related elements. The starting point is developing a mission that guides all subsequent efforts of the business. This leads to analysis of the firm's situation, and on to the formation of a competitive strategy. That strategy is subsequently implemented and atleast in theory-performance

is monitored with an eye toward fine tuning the strategy and or its implementation (Olson and Slater, 2002). Competition denotes the existence of firms that try to sell identical products/services to the same group of customers. A firm's competitors may change over time in terms of their characteristics, strategies and strategic focus due to environmental factors that affect the structure of the industry (Guiltinan and Paul, 1994). With the changing business environment firms are finding it increasing difficult to find industry environments in which there are good enough conditions that allow a rate of return above the competitive level. Competitive strategies provide a framework for the firm to respond to the various changes within the firms operating environment. Firms also develop competitive strategies that enable them develop strategic initiatives and maintain competitive edge in the market (Grant and Macmillan, 1998).

2.2 The concept of strategy

Strategy formulation guides executives in defining the business their firm is in, the ends it seeks, and the means it will use to accomplish those ends. The approach of strategy formulation is an improvement over that of traditional long-range planning (Pearce & Robinson, 2007). The essence of formulating strategy is relating a company to its environment (Porter, 1998). According to Grant (1998), the essence of strategy is to create tomorrow's competitive advantage faster than competitors mimic the ones you possess today. The goal of competitive strategy is to find a position in the industry where the company can best defend itself against competitive forces or use them in its favour (Porter, 1998). Business managers evaluate and choose strategies that they think will make their business successful. Businesses become successful because they posses some advantage relative to their competitors (Pearce & Robinson, 2007).

Grant (1998) argues that there are two sources of superior performance; one is to locate an industry where industry conditions are good enough to allow a rate of return above the competitive level. The other option is for a firm to attain a position of

advantage against its competitors within an industry to allow it to earn a return in excess of industry average. He further argues that as competition intensifies in almost all industries, very few industry environments can guarantee secure returns. Hence the primary goal of a strategy is to establish a position of competitive advantage for a firm (Grant 1998). Porter (1998) argues that understanding the structure of the industry plays a critical role in the formulation of competitive strategies.

2.3 Competitive Strategies and competitive advantage

Competitive strategy consists of all those moves and approaches that a firm has and is taking to attract buyers, withstand competitive pressure and improve its market position. (Thompson and Strickland, 2002). A company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces (Thompson & Strickland, 2002). Sustainable competitive advantage is born out of core competencies that yield long term benefit to the company. Porter (1998) defines a core competence as an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity. They further explain that a core competence has three characteristics .First; it provides access to a wide variety of markets. Secondly, it increases perceived customer benefits and lastly, it is hard for competitors to imitate. Sources of competitive advantage include high quality products, superior customer service and achieving lower costs than its rivals. To succeed in building a sustainable competitive advantage, a firm must try to provide what buyers will perceive as superior value. This entails either a good quality product at a low price or a better quality product that is worth paying more for (Prahalad and Hamel, 1990). Competitive strategy concerns what a firm is doing in order to gain a sustainable competitive advantage. Porter (1980) outlines the three approaches to competitive strategy these being; Striving to be the overall low cost producer, i.e. low cost leadership strategy, secondly, Seeking to differentiate one's product offering from that of its rivals, i.e. differentiation strategy and lastly ,focus on a narrow portion of the market,

i.e. focus or niche strategy. The study is based on the competitive strategies being used to cope with the stiff competition (Porter, 1980).

Competitive strategies adopted by a firm should result in a competitive advantage. Porter (1998) argues that there are three generic competitive strategies which firms can employ. These are cost leadership, differentiation and focus. This generalization was applied in US firms and can be applied amongst airlines in Kenya. Owiye (1999) however, argues that findings of studies carried out in one culture could not be assumed to apply to other cultures unless that was supported by research. The environment, i.e. cultural context, in USA is very different from that of Kenya.

2.4 Business -Level Strategies

Business level strategy differs from corporate strategy in that whereas corporate strategy involves decisions about the entire organization, strategic decision under the business units are basically concerned with how customers' or clients' needs can best be met. According to Johnson and Scholes (2002) "Business unit strategy is about how to compete successfully in particular markets". Hill and Jones (1999), states that strategic choice is a process of choosing among the alternatives generated by a SWOT analysis. The strategic alternatives generated can encompass business level, function level and global strategy. According to Thompson and Strickland (2001), Business-level responses refers to plans of action the strategy manager adapt for using a company's resources and distinctive competences to gain a competitive advantage over it's rivals in the market or industry. Companies therefore pursue a business level strategy to gain a competitive advantage that allows them to out perform rivals and achieve above average returns.

24.1 Focus strategy

Fearce and Robinson (2007) observe that business managers evaluate and choose stategies that they think will make their business successful. Businesses become successful because they possess some advantage relative to their competitors. The tree most prominent source of competitive advantage can be found in the business's cost structure and its ability to differentiate the business from competitors and focus. They further point out that businesses that create competitive advantage from one or both of these sources usually experience above-average profitability within their industry.

According to Hill and Jones (1999), focus strategy concentrates on serving particular market niche which can be defined geographically by type of customer or by segment of the product line. It is directed towards serving the needs of a limited customer group or a segment hence the company is specialized in some way. A focus strategy provides an apportunity for an entrepreneur to find and then exploit the gap in the market by developing an innovative product that a customer cannot do without. The company has enormous opportunity to develop its own niche and compete against low-cost and differentiated enterprises which tend to be larger. Focus strategy is about using either cost leadership or differentiation strategy to targeting a particular buyer group, segment, product line and geographic market (Porter, 1998). By pursuing cost advantage the goal of the firm is to become a cost leader in its industry or industry segment. Cost leadership requires that a firm must find and exploit all sources of cost advantage and sell a standard product (Porter, 1985).

Studies have also shown that small companies, at least the better ones, usually thrive because they serve narrow market niches. This is usually called market focus which is the extent to which a business concentrates on a narrowly defined market. Market focus

allows some businesses to compete on the basis of low cost, differentiation, rapid response against much larger businesses with greater resources. Focus strategy lets a business "learn" its target customers- their needs, special considerations they want accommodated-and establish personal relationships in ways that "differentiate" the smaller firm or make it more valuable to the target customer (Pearce and Robinson, 2007).

The two sources of competitive advantage described above define two fundamentally different approaches to business.' A firm that competes on low cost is distinguishable from a firm that competes through differentiation with regard to market positioning, resource and capabilities as well as organizational characteristics (Grant 1998).

Porter further argues that cost leadership and differentiation strategies are mutually exclusive and that if one attempts to pursue both will lead to a firm being stuck in the middle and can subsequently lead to low profitability (Porter, 1980).

2.4.2 Cost-leadership Strategy

A company's goal in pursuing a cost leadership strategy is to out perform competitors by doing everything it can to produce goods or services at a cost lower than competitors. The cost leader chooses a low level of product differentiation. The cost leader aims at a level of differentiation not markedly inferior to that of differentiator but maintain a level obtainable at low cost. (Hill and Jones, 1999). Grant (1998) explains that a firm would normally compete by either supplying an identical product or service at a cost that is lower than competition or can supply a premium price that exceeds the marginal costs of differentiation. The former case represents a cost advantage while the latter a differentiation advantage (Grant 1998). According to Pearce and Robinson (2007), business success built on cost leadership requires the business to be able to provide its product or service at a cost below what its competitors can achieve. Low

costs can also be achieved, filling niche needs in a buyer's operations that larger rivals either do not want to bother with or cannot do as cost effectively (Pearce and Robinson, 2007).

2.4.3 Differentiation Strategy.

The objective of differentiation strategy is to achieve a competitive advantage by creating a product (goods and services) that is perceived by customers to be unique in some important way. The strategy seeks to provide products and services that offer benefits which are different from those of competitors and are valued by most buyers. Competitive advantage would be achieved by offering the valued products or services at same price or at a slightly higher price. The differentiated company's ability to satisfy a customer's need in a way that the competitors cannot match means that it can charge a premium price (Johnson and Scholes, 2002). Differentiation on the other hand requires that the business have sustainable advantages that allow it provide buyers with something uniquely valuable to them. A successful differentiation strategy allows the business to provide a product or service of higher value to buyers at "differentiation cost" below the "value premium" to the buyers. In other words, the buyer feels the additional cost to buy the product or service is well below what the product or service is worth compared with other available alternatives. Differentiation usually arises from one or more activities in the value chain that create a unique value important to buyers (Pearce and Robinson, 2007).

2.4.4 Cost-Leadership and Differentiation

Recent changes in production techniques particularly development of flexible manufacturing technologies have made the choice between cost leadership and differentiation strategies less clear-cut. With technological development, companies can now easily obtain the benefits of both strategies as the new flexible technologies allow firms to pursue a differentiation strategy at a low cost since the two strategies can be

combined. A company can also reduce both production and marketing costs if it limits the number of models in the product line by offering packages of option rather than letting the consumer decide exactly what options they require. Just-in-time inventory system too can help reduce cost as well as improve on the quality and reliability of a company's products (Hill and Jones, 1999). Differentiation by a firm from its competitors is achieved when it provides something unique that is valuable to buyers beyond simply offering a low price (Porter, 1980).

2.4.5 Niche strategies

Here the organization focuses its effort on one particular segment and becomes well known for providing products/services within the segment. They form a competitive advantage for this niche market and either succeeds by being a low cost producer or differentiator within that particular segment. Examples include Roll Royce and Bentley. With both of these strategies the organization can also focus by offering particular segments a differentiated product/service or a low cost product/service. The key is that the product or service is focused on a particular segment (Hill and Jones, 1999).

2.4.6 A Combination of Generic Strategies

These generic strategies are not necessarily compatible with one another. If a firm attempts to achieve an advantage on all fronts, it may achieve no advantage at all. For example, if a firm differentiates itself by supplying very high quality products, it risks undermining that quality if it seeks to become a cost leader. Even if the quality did not suffer, the firm would risk projecting a confusing image. For this reason, Michael Porter (1989) argued that to be successful over the long-term, a firm must select only one of these three generic strategies. Otherwise, with more than one single generic strategy the firm will be "stuck in the middle" and will not achieve a competitive advantage. Porter (1980) argues that firms that are able to succeed at multiple strategies often do so by creating separate business units for each strategy. By separating the strategies

into different units having different policies and even different cultures, a corporation is less likely to become "stuck in the middle. However, there exists a viewpoint that a single generic strategy is not always best because within the same product, customers often seek multidimensional satisfactions such as a combination of quality, style, convenience, and price. There have been cases in which high quality producers faithfully followed a single strategy and then suffered greatly when another firm entered the market with a lower-quality product that better met the overall needs of the customers.

Porter (1980) on the other hand argues that developing competitive strategies involves development of a broad formula for how a firm is going to compete, what are the goals and policies or tactics necessary for achieving the goals. Competitive strategy includes actions or attempts by a firm to attract customers, retain them, withstand competitive pressures and strengthen its market position and is aimed at gaining competitive advantage.

2.5 Competitive Strategies for firms in foreign markets

Strategies for firms that are attempting to move toward globalization can be categorized by the degree of complexity of each foreign market being considered and by the diversity in a company's product line. Complexity refers to the success factors that are required to prosper in a given competitive arena. When a firm must consider many such factors, the requirements success increases in complexity. Diversity, the second variable refers to the breadth of a firm's business lines. When a company offers many product lines, diversity is high. Together, the complexity and diversity dimensions form a continuum of possible strategic choices. Combining these two dimensions highlights many possible actions (Pearce and Robinson, 2007).

2.6 Competitive Challenges

In their monograph, Box and Watts (2000) argue that implementation of competitive strategies is a combination of hundreds or thousands of related activities. They argue that this entire system of activities leads to competitive advantage in the market place. In his award winning Harvard Business Review (HBR) article Porter illustrates the importance of a well-organized network of activities with examples from Southwest Airlines. (Porter, 1996).

Box and Watts (2000) further argue that the real challenge in implementation generic strategies is in recognizing all supportive activities and putting them in place property. Porter (1996) also argues that most of many management trends in the 80's and 90's such as Total Quality Management, reengineering, empowering the workforce, lean production, outsourcing, and time based competition were a matter of operational effectiveness rather than strategy. Therefore in implementing strategies firms may be pursuing operational effectiveness in the name of strategy yet Porter points out that operational effectiveness though necessary is not sufficient to bring about competitive advantage. He concludes by arguing that achieving competitive advantage means adopting the appropriate generic strategy and implementing the strategy with a network of supportive activities (Porter, 1996).

Other challenges in the implementation of generic strategies for instance Porter (1998) illustrates some of the challenges in terms of risks. Technological change that renders investment in technology and learning worthless are as follows: Low cost industry learning by new corners through imitation and the use of new technology Inflation in costs of inputs that increase the firms costs, the consumer's need for differentiating factor falls, Imitation can narrow perceived differentiation, differences in desired products between the strategic target and the market and competitors break into the target market and outplay the focuser. In implementing strategy firms face challenges

such as inadequate financial resources, costly sources of funds, skills and ability of staff, marketing abilities, and changes in activities in pursuit of the agreed strategy. (Porter 1998, Grant 1998, Ansoff 1990). They include problems of capitalization accessing financing needs to help sustain operations in the light of reduced donor funding.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research design

The research design for this study was a case study. This was aimed at obtaining an in depth understanding of the competitive strategies used by low cost airlines in order to survive in this turbulent environment. Young, (1960) and Kothari (1990), concur that a case study often provides focused and valuable insights to a phenomenon that may be vaguely known and less understood. This research design has been successfully used by similar studies (Warucu, 2001, Ndumbai 2003, and Omondi, 2006).

3.2 Data collection

Qualitative data was collected focusing on the competitive strategies used in the Five Forty Aviation Limited. Primary data was collected using Personal interviews. An interview guide was prepared to assist in the collection of the qualitative data which was personally administered. The informants were the chief executive officer of the company and one manager from each of the seven (7) functional departments. The managers were chosen due to the fact that they formulate strategies to be adopted by the company. Where acceptable to the respondent, a tape recorder was to be used to record the discussion. Secondary data from Annual reports, Newsletters and Magazines were also to be collected where necessary. The interview guide was divided into three parts. Part A contains questions on general information of the firm. Part B contains

questions on the competitive strategies used by the Five Forty Aviation Limited and part C will contain questions on the challenges faced by Five Forty Aviation Limited.

3.4 Data analysis

Content analysis was used considering the qualitative nature of the data that was collected through in-depth personal interviews. This technique uses a set of categorization for making valid and replicable inferences from data to their context, (Baulcomb, 2003). This was to offer a systematic and qualitative description of the objectives of the study. The kind of study being conducted requires the use of the tools of analysis mentioned above. These tools were to be used to determine the competitive strategies used by Five Forty Aviation Limited. The findings have been presented as a narrative of the issues raised during the interviews.

CHAPTER FOUR DATA ANALYSIS

4.1 Introduction

This chapter presents the analysis and findings of the study as set out in the research methodology. Method of data collection was done through interview guide personally administered to the informants and which was developed in line with the objectives of the study.8 interview guides were sent out to Five Forty Aviation Limited to be filled in by heads of department namely finance, information system, commercial, human resources and administration, ground handling, technical, flight operations and the chief executive officer. All the completed interview guides were personally collected from the informants and all were found to be fit for analysis. Content analysis was utilised in data analysis

Opinions of informants in relation to competitive strategies and challenges experienced in adoption were captured on a 5 point likert scale. The results are presented in narrative.

4.2 Profile of informants

All the informants were heads of department at Five Forty Aviation Limited. The departments are namely finance, ground handling, commercial, technical, human resources and administration, flight operations and information system. They all report to the chief executive officer. The informants had been in the firm for over 2 years. This indicates that they were all involved in the process of competitive strategy formulation given their top positions.

4.3 Competitive strategy

Section B of the interview guide contained questions on competitive strategies. The informants were asked to what extent their firms adopted basic strategic practices as identified by Renshaw (1997) to remain competitive in the market. They were supposed to rate the factors from greater extent to no extent on a five point likert scale. The study found out that the most adopted competitive strategic practices in the industry were engaging highly skilled staff, automation of business processes, increased branding, increased distribution and intensive staff training. Advertisement is also highly practiced in the industry. Offering of a wide range of services and publicity are also largely adopted by the airline.

Engagement of skilled experienced staff and intensive training are applied to a greater extent particularly at management levell. This is important at because competitive strategies have to be properly formulated and implemented. This may be attributed to the fact that the airline business involves high customer contact and the kind of staff involved dictate the extent of business an airline can obtain. These findings indicate that the airline seek to develop their competences through highly skilled staff and use of technology to cut operating costs. Staff skills are not easily copied by competitors and use of technology produces quality services that may not be imitated easily. This leads to competitive advantage.

Besides, professional qualifications and experience is the engine of strategic competitive advantage of the firm. This is because only staff trained in competitive strategy formulation and implementation could be able to face off with competition by giving the correct responses. The experience of the informants is said to have a greater impact in way of competitive strategy formulation and implementation. From analysis, heads of departments have been with Five Forty Aviation limited for over 2 years. Due to the long experience of its heads of departments there is specialisation in the tasks

performed by employees. Specialization incorporates advanced skills in tasks performance. This is usually used in fighting off competition.

Advertisements and publicity are also highly adopted by the airline. Both strategies create awareness and enhance the image of the airline leading to long term relationships with their customers.

Five Forty Aviation Limited periodically provides discounted airfares to all its destinations and this is extensively advertised in the internet, print and electronic media.

The airline also seeks to provide a wide range of services to their clients in order to retain their loyalty. Some of these services may include reconfirmation of flights and dropping air tickets at their premises.

The environmental factors may influence the extent of adoption of competitive strategies. Specifically the firms that experience economic challenges and competition adopt strategies such as engaging of high skilled staff and automation to be able to mitigate the effects of the challenges. Intensive staff training and advertisements are also adapted to a greater extent as strategies to reduce the negative effects of such changes.

4.4 Specific Competitive Strategies

4.4.1 Generic Strategies

The study found out Five Forty Aviation Limited utilizes Ansoff generic strategies of cost leadership, differentiation, focus strategies. Generic strategy is a core idea about how Five Forty Aviation Limited best competes in the market place.

4.4.2 Cost leadership

The findings indicate that Five Forty Aviation Limited has applied a less costly method of outsourcing minor functions such as cleaning of the aeroplanes. Savings realised are being utilized to competitively motivate employees do market intelligence and information technology developments.

However main cost saving results from the no provision of meals on board the flight thus the airline does not incur costs preparing meals on board to clients. Instead passengers have the opportunity of purchasing meals on board.

Due to this the fares of Five Forty Aviation Limited are cheap because the cost for meals is not factored in the Fare. The strategy is seen a response to competition especially Kenya Airways whose Fares are high and provide meals on board their flight.

Existence of technical and ground handling departments ensure constant repair and services to the planes, cars and machines used by Five Forty Aviation Limited in its operations. This saves the firm significant costs than when these services are outsourced.

4.4.3 Differentiation Strategies

Differentiation strategy involves creating a product that is being perceived as being unique or superior value to the customer thus attracting customer's loyalty, pricing not withstanding. The findings of the study indicate that Five Forty Aviation Limited has automated its business processes like internet reservations and payments. Passengers can book and pay for their flights via the internet. The study also revealed that Five Forty Aviation Limited provides the passengers with single class seat arrangements unlike their competitor Kenya Airways where seats are booked according to class.

4.4.4 Focus Strategies

As a competitive strategy, the focus strategy encompasses selection of a company target market within its operating environment.

The study indicates that Five Forty Aviation Limited targets the low end clients by providing the cheapest fares on all its destinations. Its increased distribution network has worked positively in line with its vision of being the low cost airline in the region. The company operates flights to remote and unique areas namely Maasai mara, lokichogio, odwar, lamu and malindi. This destinations are scarcely served by the competitor Kenya Airways.

The company also provides point to point flights to their clients with flights originating from Nairobi to their specific destinations unlike Kenya Airways which will provide one flight serving two or three routes at the same time. For example one flight flying to Mombassa via Malindi.

4.5 Competition

The informants were asked to rate how the variables as identified by Omondi (2006) affected competition in the industry.

Diversification by rival firms ensures financial security of the diversified firms. This strategy cushions them from the effects of shifts in the business. Ability of firms to differentiate its products can create significant business for the differentiated firms. It is therefore applicable in the industry because of the similar characteristics that the products in the industry have. Imitating a core competence can eliminate a competitive position of a given firm. This will narrow the competition. When customers recognize the existing competencies in a given firm, they tend to highly regard the firms above the other competitors. They tend to retain their loyalty for the firm's products creating a

competence that is unmatched by other competitors. Supply chains ensure accessibility to the services by clients at convenient locations and times. This therefore determines level of competition in the industry

4.6 Challenges in implementation of strategies

Section C of the interview guide contained questions on strategy implementation challenges. The researcher set to determine the challenges experienced by Five Forty Aviation Limited in the implementation of competitive strategies. The researcher set the various challenges that may be experienced from the industry. The informants were asked to show the extent to which the challenges were experienced in implementation of the competitive strategies in the firm.

Increased number of competitors as a challenge was also noted. This may be attributed to the large number of firms in the business that is competing for the same customers.

Meeting and maintaining International Air Transport Association (IATA) conditions and rules as a challenge was another factor. This may be due to the fact that these conditions require strict adherence to the most acceptable codes of practice by the members and meeting these conditions require certain commitments that may stretch the financial ability of the firm.

mitation from other airlines was also a significant challenge in the implementation of the competitive strategies. This may be due to the inability of Five Forty Aviation Limited to patent their products and the inability to make the products unique. Strategies adopted by Five Forty Aviation Limited like hiring highly skilled staff and intensive training or use of technology may be imitated easily by competitors.

The airlines move towards zero rate commission was found to be a significant challenge with a significant impact on sales targets for the airline. This could be attributed to the

loss of revenue and customers anticipated unwillingness to pay a management fee to the travel agents which has not been in place previously.

The financial challenges also affected strategy implementation. The most significant was the huge financial requirements. Strategy implementation requires huge input in terms of finances for the purchase of equipment and other resources that may be required for implementation. Rapid changes in interest rates were also cited as a significant challenge. This may be due to the fact that high interest rates lead to higher borrowing rates for firms that would like to obtain resources to fund their strategy.

4.7 Environmental factors affecting competitive strategy implementation

The researcher sought to investigate the important environmental factors in strategy implementation by the airline. The informants were asked to show how significant the factors were in the process of competitive strategy adoption.

The findings indicate that pricing was considered the most important environmental factor in strategy implementation. This may be due to the fact that strategy is guided by its effects on the price of the products being offered by the firm. A good strategy should factor in its specific effects on pricing.

Products were also considered another important environmental factor in strategy implementation. This may be attributed to the product being one of the determinants of company success. Quality, variety and benefits of the product are highly considered by customers. Employees were also considered important factor that determine strategy adoption. This is attributed to the inability of competitors to copy employees' skills in their firms. Employees are considered one of the cornerstones of successful strategy.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The objectives of the study were to determine the competitive strategies adopted by Five Forty Aviation Limited and to determine the challenges faced by the airline in implementing the competitive strategies. The findings of the study were guided by the research objectives.

All the informants were heads of department in the organisation. The majority of the informants had been in the firm for four years and above. Some had risen through the ranks over the years. This means that the informants had been involved in competitive strategy development during their time in the office. This shows that competitive strategy development and implementation is undertaken by few employees hence reducing complexity of the implementation and follow up activities.

The study found out that Five Forty Aviation Limited was a private limited company. The company is 51% locally owned by Five Forty Aviation Limited and 49% foreign owned by Lonrho Africa in terms of shares. Given that the majority of the shares are locally owned, the competition is rather national and to a significant extent international. The competitive strategy development is therefore dictated by local environment.

The informants indicated that they had a documented mission and vision statements. The entire informants in this regard therefore undertook strategic management in their firms and therefore designed competitive strategies to counter competition.

The study found out that Five Forty Aviation Limited uses Porters generic strategies of cost leadership, differentiation and focus strategy in facing off competition within the

industry. These strategies have been successfully employed by the airline thus emerging as the best low cost domestic airline.

The study also established that heads of departments were involved in formulation of competitive strategies. This implies that the process of developing competitive strategies by management is all inclusive and therefore success is attainable because all the staff own the process. Employees are aware of where their organisation is headed to and participate fully in ensuring the success of the competitive strategies developed.

The informants indicated that the company mission and vision is reviewed on a definite time period. This implies that the operating environment is highly dynamic and therefore the change in competitive strategies is done to match competitor actions.

The informants indicated that economic changes affect competitive strategies more than any other factor. This was followed by political changes and physical environmental changes. This indicates that the economic environmental variables such as inflation and stages of economic growth affect the airline industry and may necessitate review of mission and vision to counter the effects of the changes.

The research findings also indicate that competitive strategy is influenced by the environment. The majority of the informants are in agreement that the organization changes strategy with the environment and their strategies are guided by environmental variables. The informants also agreed that competition makes part of the environment. The majority of the informants also agreed that airline industry has a dynamic environment that deals with hence dictating their competitive strategy. This implies that strategy in the industry is influenced by environmental factors.

The study established many challenges in implementation of strategies. It was established that the Five Forty Aviation Limited face challenges such as meeting and maintaining International Air Transport Association (IATA) conditions and rules, the airlines move towards zero rate commission, high costs of maintaining quality service, and cost of attracting and maintaining skilled staff. In addition, technology and increased number of competitors and inability to differentiate products are also additional challenges that are experienced. The above challenges act as barriers to entry and exit in the industry. Competitive strategies therefore should be designed to respond to these challenges and reduce their effects on the firms.

The researcher also established the importance of various factors in influencing competitive strategy implementation. It was established that pricing, the products, customer location and employees are most important in the implementation process. Pricing and products offered by airlines are important in developing and implementing competitive strategy.

5.2 Conclusion

The firm studied was a private limited company with majority of share ownership being locally owned and partly foreign owned in terms of shares. This indicates that Five Forty Aviation Limited is locally focussed. From the study it can be concluded that the airline with its few number of employees-137 adopts a low cost strategy in order to remain competitive in the environment. The informants had a documented mission and vision statement. This implies that the firms undertook competitive strategic management in their firms. The study also established that directors and staff were involved in formulation of company mission and vision. This implies that the process of competitive strategic management is all inclusive and therefore owned by all employees in the organisation.

According to the study it can be concluded that economic changes as well as environmental factors influences competitive strategies more than any other factor, economic environmental variables such as inflation and stages of economic growth affect the business of airlines and may necessitate review of competitive strategies to counter the effects of the changes. Competitors' actions and management policies also affect alteration of competitive strategies; therefore these can be concluded to be the most important environmental factors.

The strategies such as engaging highly skilled staff, automation of business processes intensive staff training, advertisements, offering wide range of services and use of publicity are significant in response to environmental factors such as economic changes and competitors actions

The airline adopted the competitive strategies such as engagement of highly skilled staff, automation of business processes, intensive staff training, advertisements, offering a wide range of services and use of publicity, this implies that these are the most important strategies that guide adoption of strategies by the organization.

The variables affecting competition were identified to be diversification by rival firms, ability of the firms to differentiate products, the ability to imitate a core competence, recognition by customers of the competence existing and the availability of supply chains. In addition, profitability of the rival firms and the availability of core competence areas also affect competition in the industry.

The environment influences competitive strategy adoption. The airline changes its strategy with the environment; in addition competition also makes part of the environment. This implies that strategy adoption and implementation must be matched with environmental forces for success to be achieved. In addition meeting the International Air Transport Association (IATA) conditions and rules, airlines move

towards zero rate commission and high cost of maintaining quality service are also significant challenges. The most important environmental factors influencing the adoption of competitive strategies by the airline is such as pricing, location, employees and customer service and products. To attain strategic success, airlines should match their strategic capabilities with the environmental changes.

5.3 Recommendations

Given that the aviation industry has only a limited number of services to offer, it is critical for the firms to design the best means to make their services better than those of the other firms. Many options are available to the airline. The provision of the services can be differentiated by a properly selected team of employees with the required qualification and capability to undertake successful service delivery.

It is also important that the firms that would want to remain competitive in the industry make available other complementary traveling services such as visa application and processing transport arrangements and hotel bookings at destination points, travel and health insurance provision. Apart from increasing revenues, this will also serve as a marketing tool for the airline.

For future research, the study recommends that a similar study be carried out in other industries to establish their approach to competitive strategy. The inter industry comparison will aid conclusions regarding the influence of industry characteristics in competitive strategy.

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31-50	()
Over 50 years	()
5. How many employees does your organizatio	n have?
• Less than 5 employees	()
• 5-15 employees	()
• 16-30 employees	()
• 31-50	()
Over 50 employees	()
6 Name your five main business competitors	
1	
2	
3	
4	
5	
7. How do you rate competition in your market	?
Highly Competitive	
Average	
Not Competitive	
Not sure	
8. What are your reasons for the above?	
9. How many stations does your organization h	nave?

APPENDICES

Appendix I: Interview Guide: Competitive Strategies Adopted By Five Forty Aviation Limited

Section A: General information

Please tick or fill as appropriate:

1. Name	(optional)
2. Job Title	
3. Department	
1. How do you classify your organization	1?
Small domestic owned firm	()
Large domestic owned firm	()
Small foreign owned firm	()
Large foreign owned firm	()
2. Your organization is registered as a:	
Sole proprietorship	()
Partnership	()
Limited Company	()
3. What range of services do you offer?	
A For how long has your organization on	porated in Konya?
4. For how long has your organization op	()
Less than five years	()
5 – 15 years	()
16-30	

10. Des Chann	scribe the nature	of your Co	mpany's Dis	tribution		
11. Wh	at was the perfo	rmance of y	our compar	ies in terms	of K£	
		2004	2005	2006	2007	2008
i.	Profitability					
ii.	Sales volume					
iii.	Market share					
iv.	Operating pro	ofits				
	nat do your custo propriate)	omers cons	ider the pric	es of your se	ervices to be	e (please tic
	Higher than co	mpetitor [
	Similar to com	petitor _				
	Lower than cor	mpetitor _				
13. Ple	ease give reason	s why your	price is as i	ndicated abo	ve.	
	RT B mpetitive Strateg	qies				
14. Do	es your organiza	ation have a	corporate s	trategy?		
Yes	s ()					
No	()					

15. Please, indicate the extent to which each of the	he follo	owing	is appl	ied by	your
organization on a scale of 1-5 where:					
5 = very large extent					
4 = Large extent					
3 = Moderate extent					
2 = small extent					
1 = No extent					
	1	2	3	4	5
Give discounts for repeat customers	()	()	()	()	()
Reward frequent customers	()	()	()	()	()
Create membership for regular customers	()	()	()	()	()
Maintain high quality of services	()	()	()	()	()
 Implementation of customer feedback system 	()	()	()	()	()
Regularly educate customers about various					
Organizational services	()	()	()	()	()
Introduce differential tariffs based on level					
of repeat services.	()	()	()	()	()
16. To determine the extent to which your organi	zation	uses o	ost le	adersh	ip
generic strategy, please indicate the extent to wh	nich ea	ch of t	he foll	owing	is
important to your organization on a scale of 1 to	5.				
5 = Very large extent					

4 = Large extent

1 = No extent						
	1	2	;	3	4	5
Provide the service at lowest possible costs	()	() (()	()	()
 Provide the service at the lowest possible price 	e ()	() (()	()	()
 Develop organization cost efficiency 	()	() (()	()	()
Develop efficient scale facilities	()	() (()	()	()
7. To determine the extent to which your organ						
trategy, please indicate the extent to which eac	ch of t	he fo	llowir	ng is	impo	rtant to
our organization on a scale of 1 to 5.						
6 = Very large extent						
4 = Large extent						
3 = Moderate extent						
2 = Small extent						
1 = No extent						
	5	4	3	2	2	1
Target a specific geographic market ()	()	()	()	()
Target a specific sector in the economy ()	()	()	()	()
Concentrate on main leading customers ()	()	()	()	()
Open new geographical branches ()	()	()	()	()

3 = Moderate extent

2 = Small extent

important	to your organization on a scale of 1 to	5.									
5 = Very la	rge extent										
4 = Large	extent										
3 = Modera	ate extent										
2 = Small e	extent										
1 = No ext	ent										
		5		4		3		2		1	
 Develo 	p services targeted to existing customers	()	()	()	()	(
 Develo 	p unique customer service levels	()	()	()	()	(
Develo	op services according to the needs of the										
custon	ners.	()	()	()	()	(
 Differe 	entiate service features for different										
custon	ner preferences.	()	()	()	()	(
 Develo 	op different service quality levels that suit										
the cu	stomer pocket.	()	()	()	()	(
• Devel	op organizational band image to create										
uniqu	eness.	()	()	()	()	(
• Deve	lop organizational technology leadership										
positio	oning.	()	()	()	()	(

18. To determine the extent to which your organization uses differentiation

generic strategy, please indicate the extent to which each of the following is

PART C

Strategy Implementation Challenges

19. Please indicate the extent to which your organization perceives the following challenges in strategy implementation on a scale of 1 to 5 where:

5 = to a very large extent
4 = to a large extent
3 = to some extent
2 = to a small extent

1 = to no extent at all.

		Least extent					Large extent				
		1		2		3		4		5	
•	Lack of financial resources	()	()	()	()	()
•	Poor advances in technology	()	()	()	()	()
•	Small business margins	()	()	()	()	()
•	Diminishing business returns	()	()	()	()	()
•	increased operational costs	()	()	()	()	()
•	Stringent regulatory framework	()	()	()	()	()
•	Competitor activity in strategy mimics	()	()	()	()	()
•	Lack of top level management commitment	()	()	()	()	()
•	Lack of employee expertise.	()	()	()	()	()

20. How does your organization executive management consider the following attributes in airline industry?

		Leas	t impo	Most Important				
		1	2	3	4	5		
	How to communicate with customers	()	()	()	()	()		
	Leadership in customer service	()	()	()	()	()		
	Technology leadership	()	()	()	()	()		
	Market share leadership	()	()	()	()	()		
	Logistic service leadership	()	()	()	()	()		
٠	Cost effective service delivery	()	()	()	()	()		
	Efficiency in service delivery	()	()	()	()	()		
	Innovation in service delivery	()	()	()	()	()		

^{**}THANK YOU FOR YOUR TIME AND COOPERATION**

Appendix 2: Complementary Letter to the respondents

University of Nairobi	Date:						
School of business	Telephone: +254 (020) 732160						
P.o. Box. 30197	Telegrams: "Varsity", Nairobi						
Nairobi, Kenya.	Telex: 22095 Varsity						
To Whom It May Concern The bearer of this letter							
Registration Number	Telephone:						
Is a Master of Business Administration (Mi	BA) student at the University of Nairobi.						
The student is required to submit a research Project as part of partial fulfillment of the requirement Masters Degree in Business Administration. We would like the students to do their projects on real problems affecting firms in Kenya today. We would therefore appreciate if you assist the student collect data in your organization to this end. The results of the report will be used solely for purpose of the research and in no way will your organization be implicated in the research findings. A copy of the report can be availed to the organization on request.							
Thank you,							

The Coordinator, MBA program