

**DETERMINANTS OF STRATEGIC ALLIANCES IN THE
AIRLINE INDUSTRY IN KENYA**

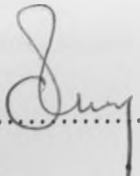
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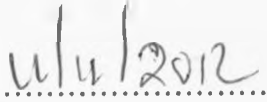
**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT
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UNIVERSITY OF NAIROBI**

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DECLARATION

This research project is my original work and has not been presented for examination to
in any other university

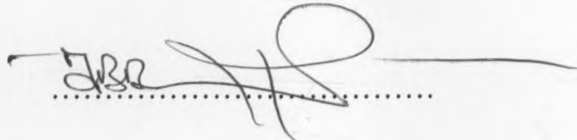
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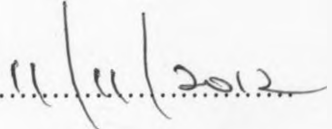
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A tree is judged by the fruits it brings forth this work could not have been a reality without the scholarly assistance, self-sacrifice, patience and guidance of my supervisor Dr. Z. B. Awino. I also salute all my lecturers during the entire course your hard work and dedication is highly appreciated. Finally I acknowledge my Mum and dear Sister and say thank you for the support you have shown me all my life

DEDICATION

I dedicate this work to my dear wife Jane and my children Ayanna and Alwyn; truly you have inspired me to achieve this goal, to my Mum for believing in me and boundless scholarship. To my sister I say thank you and God bless abundantly.

TABLE OF CONTENTS

Declaration	ii
Acknowledgments	iii
Dedication	iv
List of abbreviations	viii
List of tables	ix
List of figures	x
Abstract	xi

CHAPTER ONE: INTRODUCTION..... 1

1.1 Background of the Study	1
1.1.1 Concept of Strategic Alliances.....	2
1.1.2 Determinants of Strategic Alliances	3
1.1.3 The Airline Industry in Kenya	4
1.2 Research problem.....	6
1.3 Research Objective	7
1.4 Value of the Study	7

CHAPTER TWO: LITERATURE REVIEW..... 9

2.1 Introduction.....	9
2.2 Theories of Strategic Alliance	9
2.2.1 Transaction Cost Theory.....	9
2.2.2 Resource Dependency Theory	10
2.2.3 Organizational Learning Theory.....	11
2.2.4 Relationship Marketing Theory	12
2.2.5 Strategic Behavior Theory	12
2.3 Determinants of Strategic Alliances	13
2.5 Factors affecting performance of Strategic Alliances.....	16

CHAPTER THREE: RESEARCH METHODOLOGY	22
3.1 Introduction.....	22
3.2 Research Design.....	22
3.3 Target Population.....	22
3.4 Data Collection	23
3.5 Data Analysis.....	23
CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF RESULTS. 24	
4.1 Introduction.....	24
4.2 General information on airline alliances.....	24
4.2.1 Areas of corporation in airlines.....	26
4.3 Determinants of Strategic Alliances	26
4.3.1 Data on Market entry and market position-related motives.....	27
4.3.2 Data on resource use efficiency-related motives and uncertainties	29
4.3.3 Data on formulation of technical standards and access new technologies ...	31
4.4 Factors affecting performance of strategic alliance	33
4.4.1 Data on organization strategy	33
4.4.2 Data on management of the alliance.....	35
4.4.3 Data on organizational environment.....	37
4.5 Discussion of Findings.....	39
4.5 Summary of Findings.....	40
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS.. 42	
5.1 Introduction.....	42
5.2 Summary	42
5.3 Conclusion	43
5.4 Recommendations.....	44
5.5 Limitations of the Study.....	44
5.6 Suggestions for Further Research	45
5.7 Implication on Policy, Theory and practice.....	45

REFERENCES.....	48
APPENDICES.....	54
Appendix 1: Letter of introduction to respondents	54
Appendix 2: Letter of Authority from the University	55
Appendix 3: Questionnaire	56
Appendix 4: List of International Airlines in Kenya.....	61

LIST OF ABBREVIATIONS

CAP	Chapter
CCNR	Coca-Cola Nestle Refreshments Company
CEO	Chief executive Officer
JKIA	Jomo Kenyatta International Airport
KAA	Kenya Airports Authority
KCAA	Kenya Civil Aviation Authority
MIA	Moi International Airport
NGO	Non-Governmental organisations
PESTEL	Political, Environmental, Social-cultural, Economic & Legal
R&D	Research and Design
SEM	Structural Equation Model
SPSS	Statistical Package for the Social Sciences
STDEV	Standard Deviation
SWOT	Strength Weakness Opportunity & Threats
U.S	United States of America

LIST OF TABLES

Table 4.1: Market entry and market position-related motives	28
Table 4.2: Resource use efficiency-related motives and uncertainties	30
Table 4.3: Formulation of technical standards and access new technologies	32
Table 4.4: Organization Strategy	34
Table 4.5: Management of the alliance	37
Table 4.6: Organizational Environment.....	39

LIST OF FIGURES

Figure 4.1:	Breakdown of alliances in Kenya	25
Figure 4.2:	Responses on market entry and market position-related motives.....	28
Figure 4.3:	Responses on resource use efficiency-related motives and uncertainties.	30
Figure 4.4:	Responses on Formulation of technical standards and access new technologies	32
Figure 4.5:	Responses on influence on organization strategy	34
Figure 4.6:	Responses on management of the alliance.....	36
Figure 4.7:	Responses on Organisational Environment	38

ABSTRACT

The concept of strategic alliances has received a lot of attention from scholars for a very long time now. Despite numerous studies in this area, interest has not faded away. To this end, the objectives of this study were to identify the determinants of strategic alliances to better understand what drives airlines into such alliances and to identify factors that affect the performance of the alliances. The research was done through descriptive survey design, which involved all airlines with scheduled flights in and out of Kenya totaling thirty six (36). The target population was CEOs or Senior managers within the airlines, which had response rate of 72%. Key findings of the study showed that market entry and market position-related motives, resource use efficiency-related motives and uncertainties and formulation of technical standards and access of new technologies are major determinants of strategic alliances. In addition, organization strategy, management of the alliances and organizational environment are key factors that influence the performance of alliances. This pointed to the current and future importance of strategic alliances in the airline industry since the era cut throat competition is slowly coming to an end. This validated the underlying principles enshrined in the strategic alliances theories in the study namely transaction cost, resources dependency, organizational learning, relationship marketing and strategic behavior theories. A key recommendation proposed by this study is that airlines should identify their needs to ensure that as they enter into alliances they can build on their weaknesses. The crafting of the strategy, the involvement of management, and organizational environment cannot be over emphasized if the alliance is to succeed. This study recommends an expanded study in regard with intermodal alliances, vertical alliances within the airline industry.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The concept of strategic alliances has received a lot of attention from scholars for a very long time now. Despite numerous studies in this area, interest has not faded away. This underscores the importance of such alliances for the survival of businesses. Even giant companies like IBM, Philips, Nokia and Unilever often cannot achieve leadership nationally or globally without forming alliances with domestic or multinational companies that complement or enhance their capabilities and resources (Kolter, et al., 2009).

Kenyan airline industry is primarily dominated by one player, which is Kenya Airways. Other players are Five Forty, & Jet link which are small compared to Kenya Airways. Strategic alliances provide an avenue for airlines to grow; such growth is seen in the number of destinations an airline is able to service. The need for cooperation arises mostly from the desire of major airlines to offer global services, increase service quality, exploit size economies and gain market power. Studies indicate that managers have become increasingly aware that alliances with other organizations are essential for growth and prosperity.

Mr. Titus Naikuni the CEO of Kenya Airways on Thursday 14th June, 2012 announced a restructuring programme that would be far-reaching and which will affect procurement, staff productivity and fuel costs Omwenga (2012). This is in line with the report by Peterson and Daily (2011) Mr Naikuni said that the move to bring together carriers under

the African Airlines Association to buy fuel jointly in bulk, would save it \$2 million this year, “You can’t let costs run away with you” said Mr. Naikuni (Miriri, 2012) this is in line with collaboration efforts we are seeing throughout the airline industry.

1.1.1 Concept of Strategic Alliances

Cavusgil, Kninght, & Reisenberger (2008) define a strategic alliance as the pooling of resources and sharing of costs and risks in a venture; they further state that for it to be considered an international alliance, such risks, costs and resources must be pooled across borders. Keegan & Green (2011) agreed with Cavusgil et al. (2008) but they introduced certain minimums that must be met. They argued that the participants should remain independent after the formation of the alliance. The participants will make ongoing contribution in technology, products and other key strategic areas.

Barla & Constantatos (2006) agreed with the two previous definitions but for them the sharing of resources is key. For example he argues that when partners in an airline alliance specifically agree to use each other’s designator codes to distribute their air services in the market, the industry calls the agreements “code sharing” alliances. Such relationships involve at least two or more airlines where one of the airlines either directly buys a certain number of seats or is allowed to sell, under its own name, seats on the partner’s airline, the airline that actually flies the airplane.

Hollensen (2011) defined strategic alliance as a partnership between two or more parties. He further stated that they can be within the same country or across borders, in the case where this happens across borders it can be referred to as an international joint venture. Strategic alliance can either be vertical, horizontal or external Jangkrajarng (2011). In

vertical alliances the organisation enters into agreements with people along the supply chain, in horizontal alliances the organisation enters into agreements with their competitors. External alliances occur where the parties in the agreement are in totally unrelated markets. He also talks of a fourth type which he calls intermodal where clients move from air transport to another dedicated transport say railway.

1.1.2 Determinants of Strategic Alliances

There is no consensus on the determinants of strategic alliances. This is because of the various reasons that companies enter into strategic alliances. There is consensus among scholars that the organisation's vision forms the basis of why an organisation would opt to enter into a strategic alliance. Gurus of strategic alliances like Varadarajan and Cunningham (1995) have given broad areas that form the determinants of strategic alliances; they include, market entry and market position-related motives, product-related motives, market structure modification-related motives, resource use efficiency-related motives and uncertainties.

According to Ohmae (1985) strategic alliances are fast and flexible ways to access complementary resources and skills that reside in other companies; strategic alliances also become an important tool for achieving sustainable competitive advantage. International strategic alliances have become an important way to help firms maintain their competitive position among global markets and it's an essential tool for serving customers.

Cooperative agreements between potential or actual competitors are determined by various strategic purposes, which include entry into a foreign market and the sharing of costs. It is also a way of merging complementary skills and assets that neither company could easily develop on its own. Pearce & Robinson (2007) agree with Barla & Constantatos (2006) who argue the need for cooperation arises mostly from the desire of major airlines to offer global services, increase service quality, exploit size economies, and gain market power (Barla & Constantatos, 2006). Dacin et al (2007) agrees with Varadarajan & Cunningham but he gives the following as being the determinants: the ability to share costs and risks, combine complementary skills, formulate technical standards and dominant designs, access new markets and technologies, preempting key competitors and reserving learning opportunities.

1.1.3 The Airline Industry in Kenya

American Airlines, the third-largest U.S carrier and its parent AMR Corp are filing for bankruptcy protection (Peterson & Daily, 2011). Bankruptcy protection enabled the airline to cut labour costs in the face of high fuel prices and dampened travel demand. On filing for bankruptcy the incoming chief executive officer said "The world changed around us;" Peterson & Daily further state that the Australian Airline Quanta's was also heading in the same direction. Virgin Atlantic is slated to exit the Kenyan market in September 2012; they cite rising cost of fuel coupled with high taxes for European Union carriers has increased the cost of running airlines as the reasons forcing them out of the market. The industry lobby group, the International Air Transport Association downgraded the aviation sector's 2012 outlook citing high cost of operation.

Deregulation of the airline industry across the world in the 1990's saw a reduction in the number of airlines globally (Flores-Fillol & Moner-Colonques, 2007). They argued that the reduction in the number of airlines globally could be attributed to the number of strategic alliances. Major international airlines belong to one of the major groups of alliances.

Kenyan airline industry is regulated by The Kenya Airports Authority (KAA), which was established in 1991 under KAA ACT CAP, Chapter 395 of the Laws of Kenya, to provide facilitative infrastructure for aviation services and Kenya Civil Aviation Authority (KCAA) that was established by the Civil Aviation (Amendment) Act, 2002 to plan, develop, manage, regulate and operate a safe, economically sustainable and efficient civil aviation system. According to KAA the airline industry business both in cargo and passenger has been growing at a rate of more than 9% from 2005 to 2011. There were 36 international airlines, as at 31st December 2011 operating (Kenya Airports Authority, 2011).

Kenya has four main airports that handle International flights, Jomo Kenyatta, Moi, Kisumu and Eldoret. Jomo Kenyatta International Airport (JKIA) handles the bulk of air travel in Kenya with 20 airlines that operate regularly and 5 seasonal. Moi International Airport (MIA), 10 airlines operate regularly and 4 seasonal. Eldoret airport handles cargo planes with 4 airlines that operate regularly. Kisumu International Airport is the youngest of all, currently has 5 regular airlines. In total there are 36 airlines with schedule flights in and out of Kenya, KAA envisions Jomo Kenyatta International Airport to become the Hub for connection of Eastern, Central and Southern Africa flights for both Private Charter Flight and Commercial Flights.

1.2 Research problem

Stubbings & Curry (2012) in their report referred to collaborative travel as the future in the airline industry, one form such collaboration takes is through strategic alliances. Cavusgil, Knight & Reisenberger (2008) define a strategic alliance as the pooling of resources and sharing of costs and risks in a venture. Determinants of strategic alliance in the airline industry vary from airline to airline, but they have similar needs which include; need for automatic transit systems that focus on flow of people rather than individuals, wider route network, better privileges like frequent flyer programme, seamless customer service, lounge access, smoother transfer of crews, passengers and cargo, baggage handling and airplanes.

Several airlines that have gone under receivership were because of the increase in cost of operations and the inability of the airline to reduce/avoid such costs. Global airlines that have been able to weather this storm have not done it alone; most of them are in some sought of collaboration with other airline(s). Kenya Airways entered into a strategic alliance with KLM, this has enabled the airline to dominate Africa and become a regional “king”. Since no single airline in Kenya has the capacity or financial muscle to provide a global system that can provide connection to every destination, it would only be possible through strategic alliances whereby the airlines will come together to form such a network.

A number of studies have been done on strategic alliances in Kenya. For instance, Koigi, (2002) did a study on Postbank and Citibank; Musyoki (2003) did a case study of an NGO; Wachira (2003) studied pharmaceutical firms; Owuor (2004) studied oil

companies; Kamanu (2005) studied NGOs; Kavale (2007) studied money transfer services; Mutinda (2008) studied Kenya Institute of Management; Kipchirchir (2009) studied the banking industry; Kibera (2009) studied Access Group Kenya; and Masila (2009) studied the alliance between Kenya Power and Safaricom. From these studies, none has focused on the airline industry despite the many alliances in the industry. There is therefore a gap in literature as far as a study on strategic alliances in the airline industry in Kenya is concerned. The following research questions are therefore explored: What are the determinants of strategic alliances in the airline industry Kenya? Which factors affect the performance of strategic alliances in the airline industry in Kenya?

1.3 Research Objective

The objectives of the study were:

1. To assess the determinants of strategic alliances in the airline industry in Kenya.
2. To determine factors affecting performance of strategic alliances in the airline industry in Kenya.

1.4 Value of the Study

The study will examine the extent to which the determinants of strategic alliances contribute towards the formation of strategic alliances and how the concept and different models of strategic alliances are applied in the airline industry in Kenya. The research will contribute to the vast body of knowledge in validating the need of strategic alliances by firms.

The study will give valuable in depth analysis of the airline industry and what the perceived standards are by various airlines to join into a strategic alliance. It will also assist the regulatory agencies like Kenya Civil Aviation Authority and Kenya Airports Authority in making policies and regulations that will make Kenyan Airports the preferred hub for airlines of the world.

Airlines in Kenya can use this work as a basis of making informed decisions as they enter into strategic alliances with other airlines. They will be able to look at determinants the industry believes are key for the success of a strategic alliance.

Major international airlines belong to one of the major groups of alliances. The groups an airline can join include Oneworld, Star Alliance, and SkyTeam; the three control more than 80% of the global airline market. The study will go a long way in validating this emerging practice.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter looks at the theories of strategic alliances and discusses the determinants of strategic alliances which include market entry and market position, product developments, research and development, uncertainties in the environment, market structure modification and resource use. Factors affecting the performance of strategic alliances will also be discussed.

2.2 Theories of Strategic Alliance

There are two basic philosophies which underlie the theories of the firm's behavior. They are; companies either adapt to their environment or that companies attempt to influence their environment Varadarajan & Cunningham (1995). The reality is that, companies develop and implement strategies constantly and rarely follow either of these two approaches. Theories of firm behavior can be used as a basis for explaining strategic alliance formation. They include: transaction cost theory, resource dependency theory, organizational theory, relationship marketing, and strategic behavior theory.

2.2.1 Transaction Cost Theory

According to Ronald Coase, people begin to organize their production in firms when the transaction costs of coordinating production through the market exchange, given imperfect information, is greater outside than within the firm (Coase, 1937). Hynes and Mollenkopf (1998) agree with Ronald Coase by arguing that organizations form alliances in order to minimize their costs and/or risks. Forming a strategic alliance represents an

internalization process for an organization, thereby removing it from the price vagrancies of the market place, accompanying negotiations and risks. Thus, forming an alliance represents one way a firm adapts to an uncertain world. The theory has been developed to facilitate an analysis of the “comparative costs of planning, adapting, and monitoring task completion under alternative governance structures” (Williamson 1985, p. 2)

2.2.2 Resource Dependency Theory

Resource dependency theory (RDT) posits that power is based on the control of resources that are considered strategic within the organization (Pfeffer and Salancik, 1978). RDT has its origins in open system theory as such organizations have varying degrees of dependence on the external environment, particularly for the resources they require to operate. This therefore poses a problem to an organization facing uncertainty in resource acquisition (Aldrich, 1999) and raises the issue of firm’s dependency on the environment for critical resources (Grewal and Dharwadkar, 2002; Pfeffer and Salancik, 1978).

Scott (1998) agrees with (Grewal and Dharwadkar, 2002; Pfeffer and Salancik, 1978) and argues the uncertainty in the external control of these resources may reduce managerial prudence and thereby interfere with the achievement of organizational goals and ultimately threaten the existence of the focal organization. Confronted with the costly situation of this nature, management actively directs the organization to manage the external dependence to its advantage.

Resource dependency theory states that organizations have specific resources but few organizations are self-sufficient in these resources Glaister (1996) and therefore must depend on others for important resources. A deficiency in one or more strategic resources

(i.e. core competencies) is seen as the driving force for collaboration and a means of reducing uncertainty and managing this dependency Hynes and Mollenkopf (1998). Transaction cost theory and resource dependency theory can be summarized into a broader theory of structure and governance which implies that companies adapt or react to their environment (Varadarajan and Cunningham, 1995).

2.2.3 Organizational Learning Theory

Organizational learning theory parallels models of individual learning grounded in cognitive and social psychology and defines learning as organizational change. Researchers agree that an organization learns through the individual learning of its members (Schein, 1996). From a cognitive perspective, individual learning involves storing, retrieving, transforming and applying information; such information processing relies on memory as “a storage device where everything we perceive and experience is filed away” (Kim, 1993).

The theory argues that in order to be competitive in an ever changing environment, organizations must change making it easier to reach those goals. To allow learning to occur the organization must make a conscious decision to change actions in response to a change in circumstances, there must be a conscious link to action and outcome. Organizational learning has many similarities to psychology and cognitive research because the initial learning takes place at the individual level, however, it does not become organizational learning until the information is shared and stored in organizational memory in such a way that it may be transmitted, accessed and used for organizational goals (Cha et al., 2008).

Hynes and Mollenkopf (1998) agree with Kim (1993) and Schein (1996) but their perspective is that, organizational learning differentiates between tacit and specific knowledge. Whereas specific knowledge can be transferred through licensing, tacit knowledge is that knowledge embedded in an individual and which can only be transferred by learning alongside the individual (Kogut, 1988). It cannot be bought or licensed (Levitas, Hitt and Dacin, 1997). This theory sits at the midpoint of the two underlying philosophies; organizations could be seen to view knowledge as a means of retaining or acquiring competencies, in an approach to resource dependency theory and therefore adapting to their environment. Alternatively, organizations could be seen as acquiring knowledge in order to compete at different points in the value chain, thereby changing the industry structure in which they operate.

2.2.4 Relationship Marketing Theory

Relationship marketing can be traced back to the notion of domesticated markets, which refers to the tendency of firms in industrial markets to form strong relationships with their customers and suppliers. The focus of relationship marketing is that firms act in order to provide superior customer value (Hynes & Mollenkopf, 1998). Within this new approach to marketing, marketing alliances are seen as the least risky and most effective means of providing services/products that will enhance the relationship with the customer base (Webster, 1992).

2.2.5 Strategic Behavior Theory

Strategic behavior refers to actions which a firm takes to improve its competitive position relative to actual and potential rivals; in order to gain a permanent commercial advantage,

thereby increasing its long-run profits. Carlton and Perloff (1994) refers to actions 'to influence the market environment and so increase profits'; while Martin (1993) refers to 'investment of resources for the purpose of limiting rivals' choices'. Strategic behavior thus refers to conduct which is not economically inevitable, but which is the outcome of a conscious attempt to shape the firm's market environment to its own lasting advantage and to the competitive disadvantage of rivals.

There are two categories of strategic behavior: Non-cooperative behavior occurs when a firm tries to improve its position relative to its rivals by seeking to prevent them from entering a market, driving them out of business or reducing their profits. Cooperative behavior occurs when firms in a market seek to coordinate their actions and therefore limit their competitive responses (Smith and Round, 1998). Hynes and Mollenkopf, (1998) points out that Companies are expected to form cooperative agreements if they believe that the arrangements will better enable them meet their strategic objectives, with the focus being on maximizing profits. Kogut (1988) states both relationship marketing and strategic behavior theories propose that firms form strategic alliances as a means of acting proactively and in so doing, altering their environment.

2.3 Determinants of Strategic Alliances

There are several parameters that determine strategic alliances, though literature shows that there is no consensus. Varadarajan & Cunningham (1995) argue that the determinants of strategic alliance are in the motives of the alliance, giving the following broad areas; market entry and market position related motives. They talk of gaining access to new international markets, circumvent barriers to entering international markets

posed by legal, regulatory and/or political factors, defend market position in present markets and enhance market position in present markets. They also talk of product-related motives and argue that through strategic alliances the organization can fill gaps in present product line, broaden present product line and differentiate or add value to the product.

Market environment are quite turbulent and keep changing. Strategic alliances provide an avenue to structure, modify, reduce potential threat of future competition, raise entry barriers/erect entry barriers and alter the technological base of competition. Healthy returns in an industry leads to more investments and consequently the need to expand. Such expansion requires entry into new markets; strategic alliances give an avenue for such expansion and it accelerates the pace of entry into new product-market domains by accelerating the pace of research and development, product development, and/or market entry.

There is a common practice of forming alliances in order to use the operating assets (e.g., airline crews, baggage handlers, airplanes, docking gates, etc.) in an attempt to avoid large capital outlays. This form of alliance is becoming widely accepted as the norm in the airline industry, this leads to efficient use resources, lower production and marketing costs. The external environment is dynamic leading to uncertainties that increase the cost of capital and consequently the cost of doing business. Strategic alliances reduce such uncertainties. Strategic alliances also provide an avenue to enhance skills and learning of new skills from alliance partners by working with them.

Spekman, et al. (1998) argues that the types of strategy employed to cope with uncertainties that are inherent in the environment are the determinants. They categorise alliances as offensive alliances or defensive alliances. Offensive alliances focus on the expansion and creation of new markets while defensive alliances focus on solidifying the current markets by creating high entrance barriers for new comers. They further argued that what partly drives the organization into the alliance forms the basis of that alliance.

Flores-Fillol & Moner-Colonque (2007) argue that the relationship between the partners forms the determinants of strategic alliances. Such relationships can lead to two main forms of alliances: complementary alliances and parallel alliances. Complementary alliances are cases in which two airlines link their existing networks and build a new network. This allows for providing interline services to their passengers. On the other hand, parallel alliances are cases of collaboration between two airlines competing on the same route. This means complementary alliances allow carriers to extend their networks because they can rely on partners to serve destinations where they lack route authority; this allows for the reduction of some inconveniences of interline trips.

Further, Rindfleisch & Moorman (2003) argues for inter-firm cooperation as means of gaining access to new knowledge and of reducing the costs and risks associated with developing new products. They further argue that over time, the inter firms co-operation leads to the firms being less customer oriented which leads to a situation whereby customers become dissatisfied with the level of services given and will usually opt for alternatives. Oxley & Sampson (2004) agree with the findings of Further, Rindfleisch & Moorman (2003) and added that choosing the scope of activities to include in an alliance

linking a particular set of firms establishes both the probability and the cost of opportunistic behaviour by alliance partners.

The greater the interdependence, complexity, and uncertain the activities performed in the alliance are, the lower is the potential risk of opportunism. This is because the extent of coordination and the more intimate face-to-face contact necessary to achieve success increases along these dimensions.

Oxley & Sampson (2004) on the other hand argue that in today's fast paced knowledge intensive environment, alliances are becoming a popular vehicle for acquiring and leveraging technological capabilities. However such alliances also pose particularly thorny challenges related to the protection of technological knowledge since successful completion of alliance objectives often require a firm to put valuable knowledge at risk of appropriation by alliance partners. Firms must therefore find the right balance between maintaining open knowledge exchange to further the technological development goals of the alliance and controlling knowledge flows to avoid unintended leakage of valuable technology.

2.5 Factors affecting performance of Strategic Alliances

A well-designed alliance contract should be consistent with the alliance's purpose and with the partners' interests (Arifio, Torre, & Ring, 2001). Unless the partners engage in extensive and intensive developmental processes, the contract will not protect their respective interests. For example, Coca-Cola and Nestle formed Coca-Cola Nestle Refreshments Company (CCNR) with the purpose of manufacturing and distributing the iced coffee Nescafe.

At the last minute when they were about to sign the contract, they opened the agreement to iced tea without giving much thought to its implications. When business started, Coca-Cola realized that Nestea was cannibalizing the alliance's sales from Coca-Cola's own products; the contract did not cover this situation as the partners had not considered this possibility (Alvarez & Barney, 2001).

Ariño & Reuer (2004) argue that the most important decision that executives make when forming an alliance is whether it will be equity-based or a non-equity agreement. This is because of the consequential decision about the type of governance the alliance will have; without proper governance the whole alliance will fail. Other aspects are incentives and control mechanisms to shape inter-firm exchanges. The executives in their own individual firms have considerable leeway in designating duties, risks, procedures and so on through contractual provisions that determine exchanges in more precise terms hence there is less friction in running of the organization. The contractual terms help firms devise remedies for foreseeable contingencies or design processes for unforeseeable outcomes.

Goerzen (2005) observes that given the lack of trust and familiarity with each other's processes, systems and routines. The growth of a firm in scope and complexity often leads to a loss in corporate focus. Large and complex alliance networks add to a firm's organizational costs through yielding of an expensive, wieldy and inefficient management structure for several reasons. First, suitable partners that possess unique resources and capabilities often exist outside of the focal firm's known sphere of contacts.

The initial search cost outlay is greater due to the difficulty in finding and assimilating information on potential partners. In addition, through the process of dealing with unfamiliar entities, the probability of adverse selection increases and the process by which a firm extracts itself from an unproductive relationship is time consuming and expensive. Once a relationship is established, the new organizational routines would probably require higher monitoring costs.

Shah & Swaminathan (2008) developed a contingency model of partner selection; they talk of four main approaches in management of relationships that exist in an alliance. He talks of trust as a key norm in governing and coordinating alliances. Complementarity focuses specifically on the fit between partners as viewed by one important stakeholder group, e.g., customers. When the alliance process is relatively simple and easier to manage, reliance on trust and commitment becomes less critical because of the reduced fear of opportunism. However, under conditions of low outcome interpretability, having a partner with high complementarity provides some assurance that due to the very nature of the complementarity of products, the shared image and target customers, outcome benefits would be more likely to become positive even if they are difficult to assess.

They describe commitment as a pledge by alliance members to undertake specific actions that will facilitate the attainment of the alliance's goals and objectives and is an essential part of successful long-term relationships. Commitment has also generally been defined as a willingness to make short-term sacrifices to realize longer-term benefits. They argue that when outcomes are easily interpretable, the resources required for producing those outputs are also likely to be more easily identified. Commitment is then shown by the alliance members in the form of pledged resources and assets they are willing to dedicate

to the alliance (Shah & Swaminathan, 2008). Fourthly Shah & Swaminathan (2008) add that higher financial payoffs could result from higher perceived market opportunities that translate into higher revenues. Financial payoffs may also result from cost reductions stemming from better economies of scale that, in turn, derive from combining production or research and development (R&D) operations in a strategic alliances developing a framework of exchange in which expected rewards and required investment in a relationship determine implementation and future outcomes.

Nielsen (2007) on the other hand considers the relationship between subjective measures of international alliance performance, a set of variables, which may act as predictors of success before the alliance is formed and a set of variables which emerge during the operation of the alliance. The empirical study, based on a web-survey, investigates a sample of Danish partner firms engaged in 48 equity joint ventures and 70 non-equity joint ventures with international partners. The results show a significant relationship between alliance performance and partner reputation preceding alliance formation as well as strong relationships between collaborative know-how, trust, protectiveness.

Kolter et al. (2009) further argued that in making an alliance, companies need to give creative thought to finding partners that might complement their strengths and offset their weakness, reason being; well managed alliances allow companies to obtain a greater sales impact at lower costs. Therefore before entering into an alliance the company should carry-out a SWOT analysis to determine who would best suit their needs. He also argues that for strategic alliances to thrive, corporations should develop structures that support them. The ability to form and manage partnerships as a core skill is known as Partner Relationship Management. While Keegan & Green (2011) argued for proper

management and success of the alliance, the company should ensure that the mission is a successful win-win situation on the basis of mutual need or advantage. The strategy must be thought out upfront to avoid conflicts. Discussions and consensus must be viewed as the norm, that is, partners should be viewed as equals. The culture is important in creating a set of shared values. Organizations should ensure innovative structures and designs are built to offset the complexity of multi-country management. Management should identify and deal with potential divisive issues.

Hongbin (2009) did a study based on 68 bio-tech firms in Xinjiang region in China and focused on the impact of cultural differences and communication on strategic alliance performance through Structural Equation Model (SEM). Empirical tests proved although the cultural differences between strategic partners makes no difference on strategic alliance performance, their communication quality has a positive effect on trust between partners. The study found that trust between partners does not only impact on the evaluation of alliance performance, but shows a significant effect on the willingness of further cooperation. Meanwhile, the study revealed that alliance performance has a positive effect on partners' future cooperation.

Jangkrajarng (2011) in his study argues that parallel, complimentary and strategic alliances contribute significantly to productivity gains. Furthermore, all types of alliances (with the exception being complimentary alliances) left a positive impact on profitability according to his analysis. He gives the following factors as key success factors an airline company needs to succeed in the highly competitive global air transportation sector:

Improve accessibility through high frequency of flights, far-reaching networks, attaining high reliability in terms of completed flights (in the 90% range), flights arriving on time despite uncontrollable factors such as the weather as well as airport and air-traffic control capacities, providing affordable travel options through continuous improvement in technology and management systems and introducing innovations especially for passengers traveling in higher service classes.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter gives the research techniques that will be adopted in the study. It covers the proposed research design, the target population, data collection methods and data analysis that was used during the study.

3.2 Research Design

The design for this study was a descriptive survey design. A cross-sectional survey is an attempt to collect data from members of a population in order to determine the current status of that population with respect to one or more variables (Mugenda and Mugenda, 2003).

Mugenda and Mugenda (2003) gives the purpose of a descriptive survey research as seeking to obtain information that describes existing phenomena by asking individuals about their perceptions, attitudes, behavior or values. Given that the objective of the study is to determine the strategic alliances of airline industry in Kenya, a descriptive survey design was found to be the best to fulfill the objectives of the study.

3.3 Target Population

The population of study was all international airlines that operate in Kenya. The focus was those with scheduled flights in and out of Kenya. According to Kenya Airports Authority, 36 airlines have scheduled flights in and out of Kenya as at 31st December, 2011(See appendix 4).

3.4 Data Collection

The data was collected by way of self-administered questionnaires (See appendix 3). The questionnaires included both open and closed questions developed in line with the objectives of the research. The questionnaires targeted senior level managers of the airlines and chief executive officers because their roles and positions gave them the ability to respond to the questions.

The questionnaires were structured in 3 parts: part A focussed on the general organisational bio data, part B focussed on the determinants of strategic alliances and individual thought. Part C focussed on factors affecting strategic alliance performance.

3.5 Data Analysis

Data can be described as a collection of facts and figures relating to a particular activity under study. Data analysis is the whole process that starts immediately after data collection and ends at the point of interpretation and processing results which includes data sorting, data editing, data coding, data entry, data processing and interpretation of the results (Leedy, 2002)

Questionnaires were checked for completeness of entries, consistency and coding. The data was then coded, entered and processed for analysis using Statistical Package for the Social Sciences (SPSS). The data was both qualitative and quantitative which ensured objectivity; this assisted in ensuring the data was free from any selective perception that could dilute its validity and reliability. The findings are presented in tables and analysis done using percentages and mean scores. A five point Likert scale was used to determine the factors affecting strategic alliances and their extent. Descriptive statistics was used to analyse the data.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

The objectives of this study were to identify and assess the determinants of strategic alliances and determine factors affecting performance of strategic alliances in the airline industry in Kenya. Out of a population of 36 airlines 26 airlines representing 72% responded to interviews and questionnaires. This was considered adequate for the objective of this study

Primary data was collected in this study through questionnaires and interviews. The collected data was entered into Statistical Package for the Social Sciences (SPSS) and analysed using descriptive statistics especially mean and standard deviations. The results are presented as follows; Section 4.2 gives general information on airline alliances, 4.3 shows the results on the determinants of strategic alliances. Section 4.4 shows the results on the factors affecting performance of strategic alliances. Section 4.5 presents the discussion of findings while section 4.6 is the summary of findings.

4.2 General information on airline alliances

The section gives findings on the alliances firms have entered into. An airline basically has two options; to enter an already established alliance of airlines for example Star Alliance, One world, Qualiflyer, Sky Team, and Wings or enter into direct negotiations with other airlines. The finding indicate that Kenyan airlines opt for the latter out; of 26 airlines that responded only 9 representing 35 % are in a major alliances. 17 representing 64 % have entered into agreements directly with other airlines.

The major alliance that the 9 are in is Star Alliance and Skyteam. Star alliance has 5 members and Skyteam have 4 member figures 4.1 give the break down. The Star alliance globally boasts of a membership of 27 airlines and a members access 1,290 destinations. The skyteam boast of membership of 18 airlines and a member can access 993 destinations worldwide. Only one Kenyan incorporated airline is a member of Skyteam alliance. The following chart display the information above

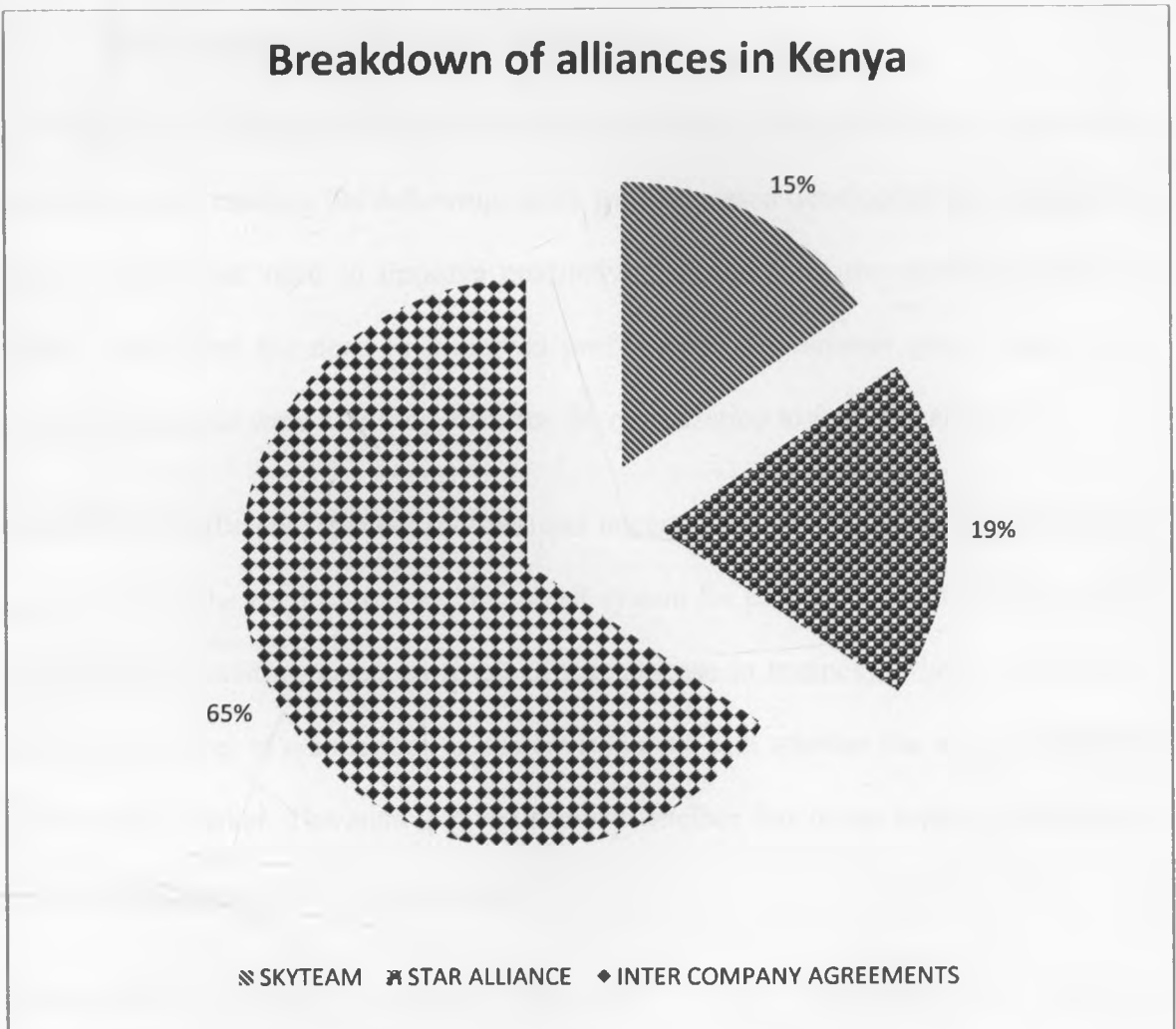


Figure 4.1: Breakdown of alliances in Kenya

4.2.1 Areas of corporation in airlines

The following areas were mentioned as being operational areas where the airlines will usually cooperate they include sales of tickets, ground handling of the airplanes, cargo handling, frequent flyer programmes, fuel purchase. A few airlines had venture into external alliances the areas of corporation are selling holiday packages and therefore entering into alliances with hotels.

4.3 Determinants of Strategic Alliances

Determinants of strategic alliances that were assessed include, market entry and market position-related motives the following needs were assessed developing and widened the route network, the need to improve productivity of the firm, the need for growth in market share, and the need to improved profitability. The answer given would show whether this needs were a driving force for the organization to form the alliance.

Resource use efficiency-related motives and uncertainties the following questions were asked whether the need to improve its transit system for passengers, whether the need to efficiently use existing assets as result of the increase in business, whether the need to decrease the level of competition in the environment, and whether the need to stabilized prices in the market. The answer given showed whether this needs were a driving force for the organization to form the alliance.

Formulation of technical standards and access to new technologies the following questions were asked, whether the need to formulate technical standards that are used in the industry, whether the need to access new technologies that from other airlines, whether the need to learning from others in the industry, whether the regulatory agency

support for the formation of alliances. The answer given showed whether this needs were a driving force for the organization to form the alliance. A mean score of <1.5 implies that the determinant were rated to no extent. A mean score of $1.5 - 2.5$ implies low extent, $2.5 - 3.5$ neutral and $3.5 - 4.5$ moderate extent while a mean score of > 4.5 implies a greater extent. A Standard deviation of <1 means that there were no significant variations in the responses while that >1 implies that there were significant variations in the responses.

4.3.1 Data on Market entry and market position-related motives

The question as to whether strategic alliances have helped in development and widening of route network out of the 26 that responded to the questionnaire 38% agreed and 62% representing the mode strongly agreed. On the question as whether strategic alliances improved productivity of the firm, 4% of the respondents were indifferent while half of the respondents that is 50% representing the mode agreed and 46% of the respondents strongly agreed.

The question as to whether strategic alliances led to growth of market share 38% agreed and 62% representing the mode strongly agreed this response is similar to developing and widening route network this is probably because the two will usually go hand in hand in the airline. Profitability of the firm had the following response 35% agreed and 65% representing the mode strongly agreed. This shows that the bottom line in any strategic alliance is key. Figure 4.2 gives graphical representation of the responses to the questions.

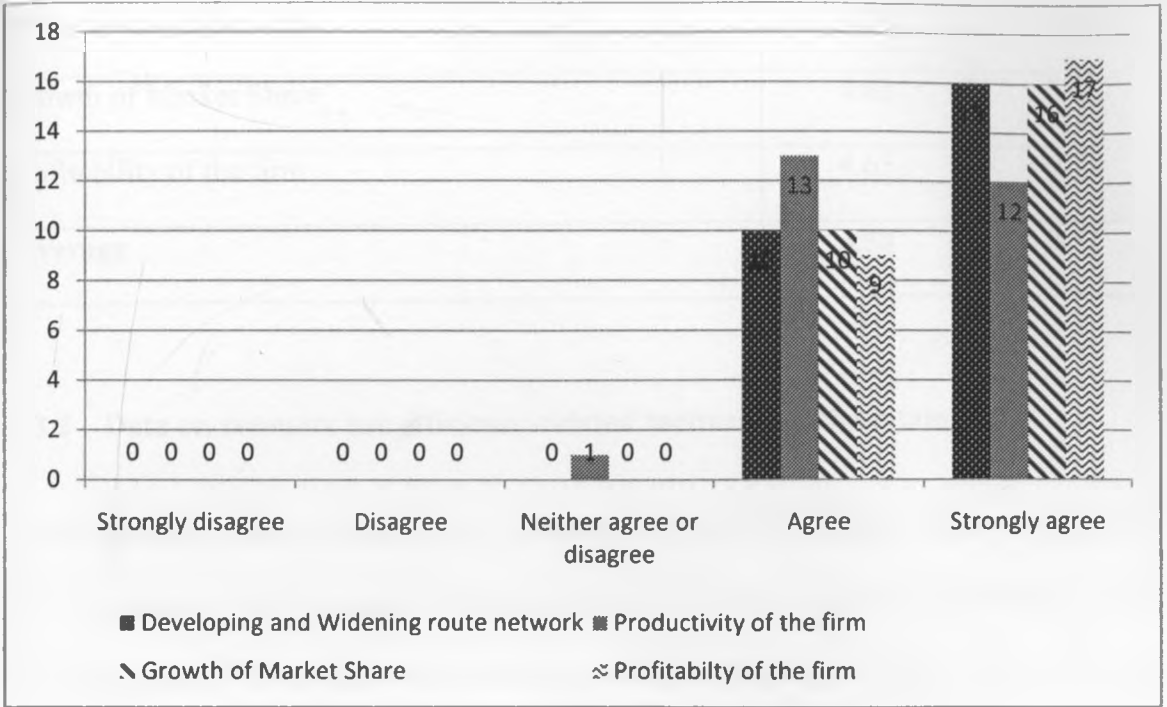


Figure 4.2: Responses on market entry and market position-related motives

Market entry and market position related motives had the following mean scores developing and widening route network (mean = 4.62), productivity of the firm (mean = 4.42), growth and market share (mean = 4.64) and profitability of the firm (mean = 4.65). The market entry and market position-related motives had an overall (mean = 4.58) and a (STDEV = 0.52). This factor was therefore a significant determinant of strategic alliances in the airline industry. Table 4.1 gives the means and standard deviations of the responses.

Table 4.1: Market entry and market position-related motives

Statement	Mean	STDEV
Developing and widening route network	4.62	0.49

Productivity of the firm	4.42	0.60
Growth of Market Share	4.62	0.49
Profitability of the firm	4.65	0.47
Average	4.58	0.52

4.3.2 Data on resource use efficiency-related motives and uncertainties

The responses was as follows on the question of whether strategic alliances improved transit systems 4% disagreed, 54% representing the mode agreed the balance of 42% strongly agreed. The question as to whether strategic alliances led better and efficient use of assets 12% disagreed, another 12% were indifferent, 50% representing the mode agreed and 27% of the respondents strongly agreed.

The question of whether strategic alliances had preempted competitors from entering the market the finding were, 8% of the respondent strongly disagreed, 35% representing the mode disagreed, 12% were indifferent, 27% agreed and 19% strongly agreed. The question as whether the strategic alliances had led to the stabilization of market prices the response varied 8% strongly disagreed, 19% disagreed, 38% representing the mode were indifferent, 31% agreed and only 4% strongly agreed. Figure 4.3 gives graphical representation of the responses to the questions.

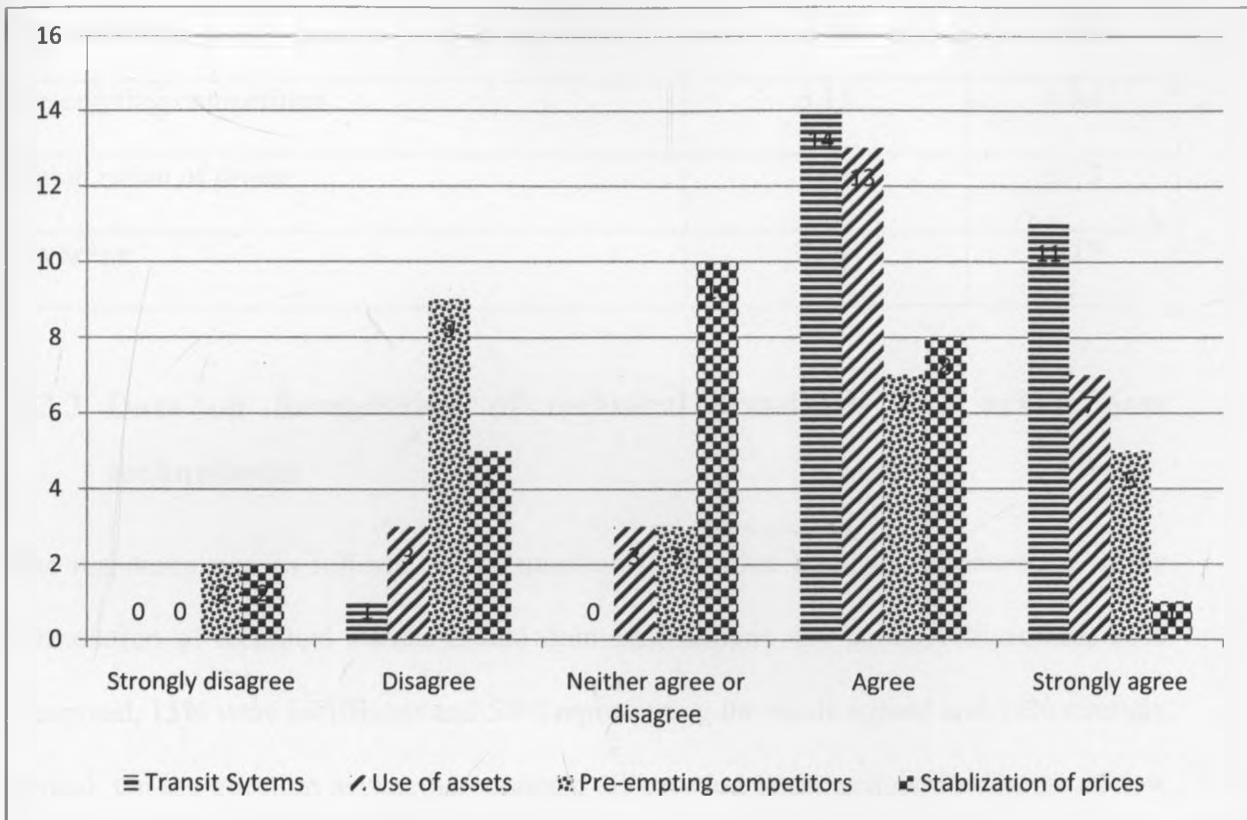


Figure 4.3: Responses on resource use efficiency-related motives and uncertainties.

Resource use efficiency-related motives and uncertainties had the following mean scores improved transit systems (mean = 4.34), efficient use of assets (mean = 3.92), pre-empting competitors (mean = 3.15), and stabilization of market prices (mean = 3.04). On average, these factors had an overall (mean = 3.62) and a (STDEV = 1.13). This means that resource use efficiency related motives were significant determinants of strategic alliances in the airline industry though there was a significant variation in the response

Table 4.2: Resource use efficiency-related motives and uncertainties

Statement	Mean	STDEV
Transit Systems	4.34	0.69

Use of assets	3.92	1.06
Pre-empting competitors	3.15	1.84
Stabilization of prices	3.04	1.73
Average	3.62	1.13

4.3.3 Data on formulation of technical standards and access new technologies

The responses was as follows on the question of whether strategic alliances led to the formulation of technical standards and dominant designs 4% strongly disagreed, 12% disagreed, 15% were indifferent and 50% representing the mode agreed and 19% strongly agreed. On the question as whether strategic alliance led to the acquisition/access of new technologies designs 4% strongly disagreed, 15% disagreed, 19% were indifferent and 35% representing the mode agreed and 27% strongly agreed.

The question as whether strategic alliance benefited employees through learning from partners in the alliance 4% strongly disagreed, 12% disagreed, 8% were indifferent and 50% representing the mode agreed and 27% strongly agreed. On the question as whether regulatory agencies support the formations of strategic alliance 4% strongly disagreed, 8% disagreed, 27% were indifferent, 31% agreed and 31% strongly agreed there was no clear mode here. Figure 4.4 gives graphical representation of the responses to the questions.

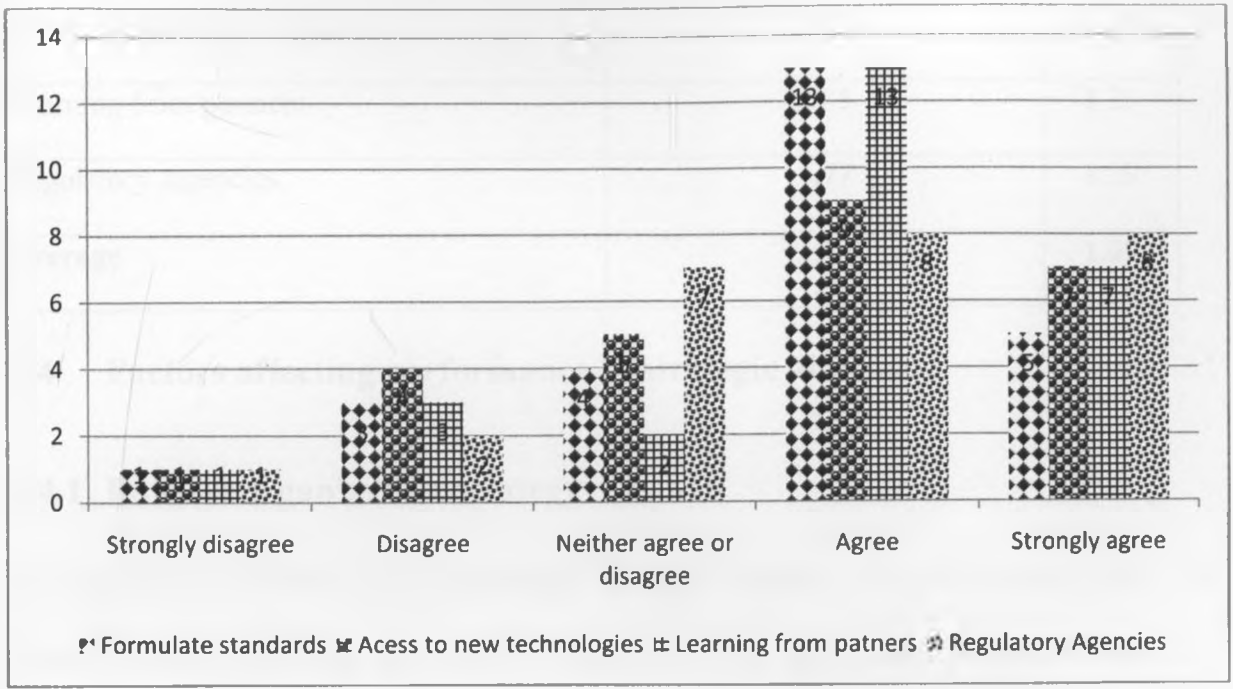


Figure 4.4: Responses on Formulation of technical standards and access new technologies

The formulation of technical standards and access new technologies, the determinants included formulation of standards (mean = 3.69), access to new technologies (mean = 3.65), learning from partners (mean = 3.85) and regulatory agencies (mean = 3.77). Overall formulation of technical standards and access new technologies had a (mean = 3.74) with a (STDEV = 1.09) suggesting that these factors were also significant determinants of strategic alliances in the airline industry. Table 4.3 gives the means and standard deviations of the responses.

Table 4.3: Formulation of technical standards and access new technologies

Statement	Mean	STDEV
Formulate standards	3.69	1.28

Access to new technologies	3.65	1.40
Learning from partners	3.85	1.23
Regulatory Agencies	3.77	1.29
Average	3.74	1.09

4.4 Factors affecting performance of strategic alliance

4.4.1 Data on organization strategy

The question as whether the organization strategy influence the performance of the alliance had the following response 8% agreed to a very little extent, another 8% also agreed to little extent, 15% were indifferent, 42% representing the mode agreed to a large extent and 27% agreed to a very large extent. The question as to whether the similarity in strategy of the firms entering into the alliance influence performance had the following response 12% agreed to a very little extent, another 12% agreed to little extent, 19% were indifferent, 38% representing the mode agreed to a large extent and 19% agreed to a very large extent.

The question as whether a regular reviews of the progress of the alliance and corrective action taken influence the performance of the alliance had the following responses 4% agreed to a very little extent, 12% were indifferent, 62% representing the mode agreed to a large extent and 23% agreed to a very large extent. The question as to whether the environment influence the performance of the alliance had the following response 8% agreed to a very little extent, 12% agreed to a little extent, 58% representing the mode agreed to a large extent and 23% agreed to a very large extent. Figure 4.5 gives graphical representation of the responses to the questions.

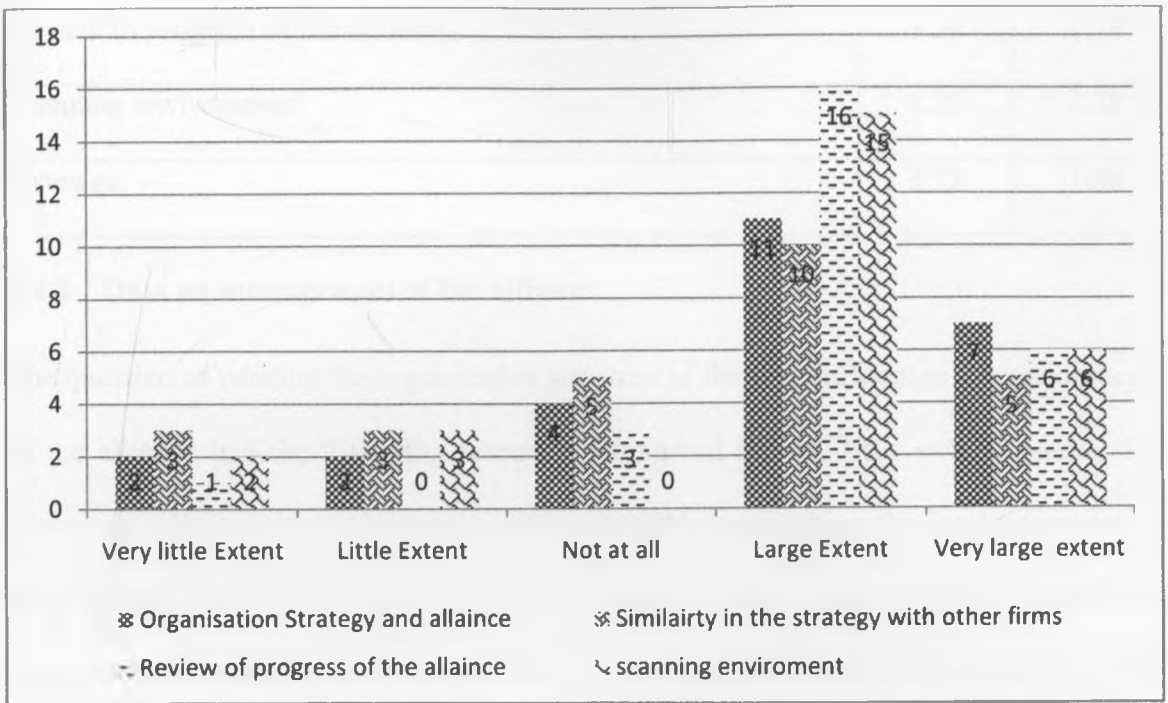


Figure 4.5: Responses on influence on organization strategy

Organisation strategy factors had the following mean scores, congruence in organisation strategy and alliance (mean = 3.80), similarity in the strategy with other firms (mean = 3.80), and review of progress of the alliance (mean = 3.50). Scanning the environment (mean = 1.70). Overall, organisation strategy had a (mean = 3.73) and a (STDEV = 1.58) indicating that organisation strategy was an important factor that determined performance of strategic alliances in the airline industry. Table 4.4 gives the means and standard deviations of the responses.

Table 4.4: Organization Strategy

Statement	Mean	STDEV
Congruence of Organization Strategy and alliance	3.80	1.62
Similarity in the strategy with other firms	3.30	1.70

Review of progress of the alliance	3.50	1.78
Scanning environment	1.70	1.78
Average	3.73	1.58

4.4.2 Data on management of the alliance

The question as whether the organization structure of the firm influences the performance of the alliance had the following response 8% agreed to very little extent, another 8% agreed to a little extent, 4% were indifferent, 58% representing the mode agreed to a large extent and 31% agreed to a very large extent. The question as whether organizational restructuring influenced the performance of the alliance had the following response 4% agreed to a very little extent, 15% agreed to little extent, 23% were indifferent, 42% representing the mode agreed to a large extent and 15% agreed to a very large extent.

The question as whether the employee contribution affects the performance of the alliance had the following response 4% agreed to a very little extent, 12% agreed to little extent, 8% were indifferent, 38% agreed to a large extent and another 38% agreed to a very large extent. The question whether employee commitment influenced the performance of the alliance had the following response 4% agreed to little extent, 8% were indifferent, 54% representing the mode agreed to a large extent and 35% agreed to a very large extent. The question as to how the alliance is run and influence on the performance the alliance had the following responses 4% were indifferent, 58% representing the mode agreed to a large extent and 38% agreed to a very large extent.

Figure 4.6 gives graphical representation of the responses to the questions.

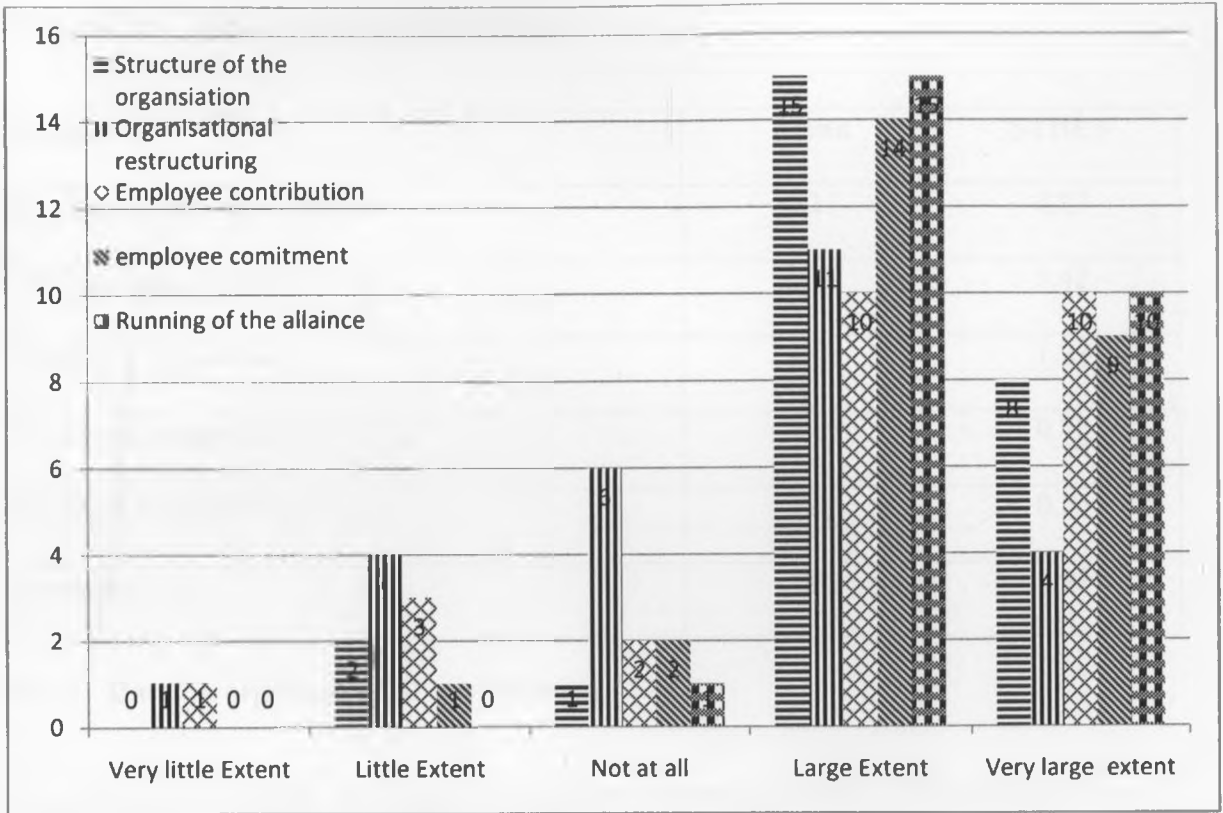


Figure 4.6: Responses on management of the alliance

The management factors and its influence performance of strategic alliance had the following means structure of the organisation (mean = 4.11), organisational restructuring (mean = 3.50), employee contribution (mean = 3.96), employee commitment (mean = 4.19), and running of the alliance (mean = 4.35). Overall, management factors had a (mean = 4.02) and a (STDEV = 0.93). This means that management as factors were significant contributors to strategic alliance performance. Table 4.5 gives the means and standard deviations of the responses.

Table 4.5: Management of the alliance

Statement	Mean	STDEV
Structure of the organization	4.11	0.87
Organizational restructuring	3.50	1.42
Employee contribution	3.96	1.23
Employee commitment	4.19	0.78
Running of the alliance	4.35	0.56
Average	4.02	0.93

4.4.3 Data on organizational environment

The question as whether the support of regulatory agencies influenced the performance of strategic alliance had the following response 12% agreed to a very little extent, 8% agreed to little extent, 15% were indifferent, 38% representing the mode agreed to a large extent and 27% agreed to a very large extent. The question as whether the culture of the firm influenced the performance of the alliance had the following response 4% agreed to little extent, another 4% were indifferent, 42% agreed to a large extent and 50% representing the mode agreed to a very large extent. Figure 4.7 gives graphical representation of the responses to the questions.

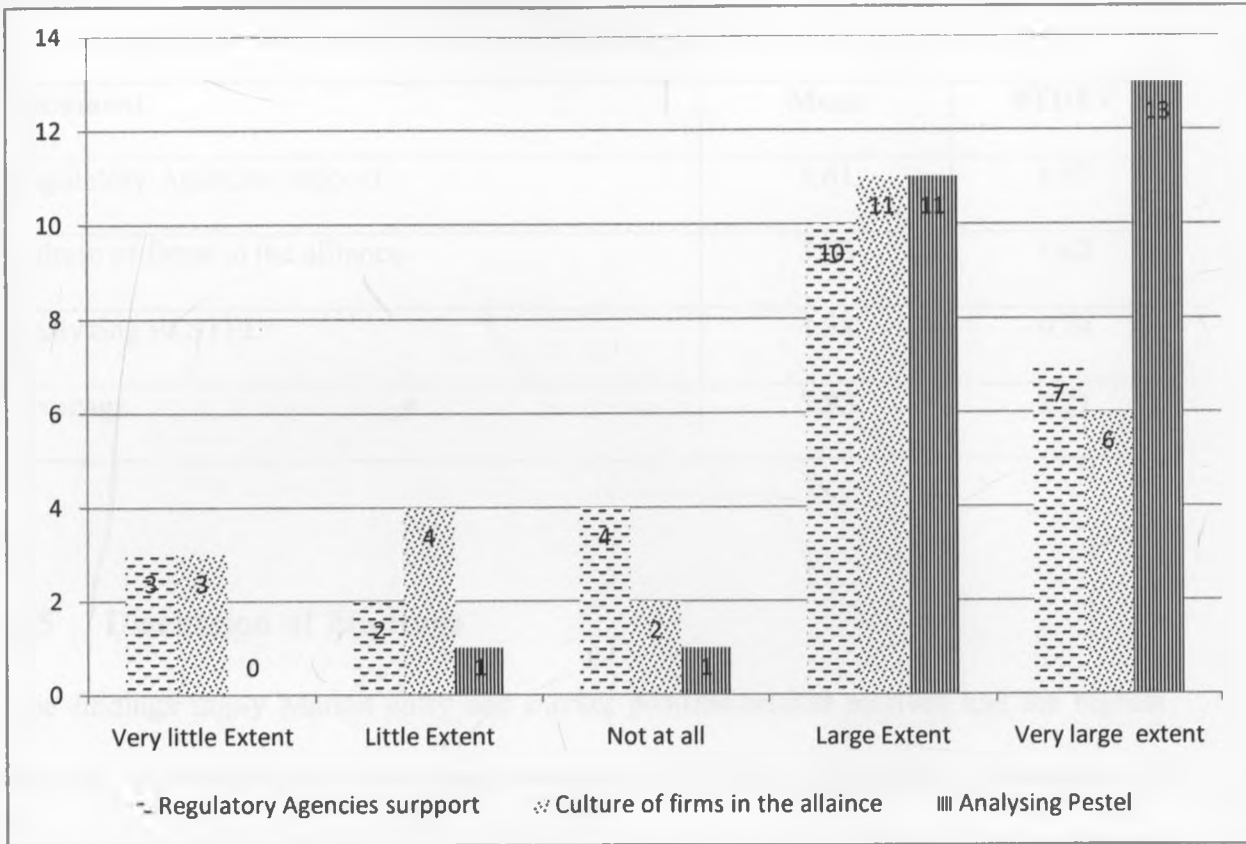


Figure 4.7: Responses on Organizational Environment

Organisations environment factor had the following means, regulatory agencies (mean = 3.61), culture of firms in the alliance (mean = 3.50) and analysing PESTEL (mean = 4.38). Overall, organisational environment had a (mean = 3.83) and a (STDEV = 1.21) meaning that organisational environment factors were significant influencers of performance of strategic alliances in Kenya. Table 4.6 gives the means and standard deviations of the responses.

Table 4.6: Organizational Environment

Statement	Mean	STDEV
Regulatory Agencies support	3.61	1.53
Culture of firms in the alliance	3.50	1.62
Analyzing PESTEL	4.38	0.74
Average	3.83	1.21

4.5 Discussion of Findings

The findings imply Market entry and market position-related motives had the highest mean of 4.58 which implies it was rated to a great extent, followed by Formulation of technical standards and access to new technologies with a mean of 3.74 which implies it was rated to a moderate extent but there was a significant variation in the standard deviation of 1.09. Resource use efficiency-related motives and uncertainties with a mean of 3.62 were rated lowest but there was also a significant variation in the responses with a standard deviation of 1.13. These results are consistent with Varadarajan & Cunningham (1995). Thus, for strategic alliances in the airline industry take place as a way of entering new markets or positioning the firms in the market or to access new technologies and standards employed by rivals or to use their resources efficiently.

The study further found that the factors influencing performance of strategic alliances were management of alliance with a mean of 4.35 which implies it was rated to moderate extent, organisational environment with a mean of 3.83 which also implies it was rated to

a moderate extent and organisational strategy was also rated to a moderate extent with a mean of 3.73. These results are consistent with those of Jangkrajarnng (2011) and Varadarajan & Cunningham (1995). Therefore, how the alliance is managed, the way it's environment is and the strategy of the alliance influences whether the alliance performs better or not.

4.5 Summary of Findings

The study sought to assess the determinants of strategic alliances in the airline industry. The study found that the market entry and market position related motives included developing and widening route network (mean = 4.62), productivity of the firm (mean = 4.42), growth and market share (mean = 4.64) and profitability of the firm (mean = 4.65). The resource use efficiency-related motives and uncertainties for the formation of strategic alliances included transit systems (mean = 4.34), use of assets (mean = 3.92), pre-empting competitors (mean = 3.15), and stabilization of prices (mean = 3.04). The standard and technology access factors include formulation of standards (mean = 3.69), access to new technologies (mean = 3.65), learning from partners (mean = 3.85) and regulatory agencies (mean = 3.77).

The study also sought to establish the factors influencing strategic alliance performance. The study found that organisation strategy factors were organisation strategy and alliance (mean = 3.80), similarity in the strategy with other firms (mean = 3.80), and review of progress of the alliance (mean = 3.50).

The management factors that influence strategic alliance performance in the airline industry in Kenya were structure of the organisation (mean = 4.11), organisational restructuring (mean = 3.50), employee contribution (mean = 3.96), employee commitment (mean = 4.19), and running of the alliance (mean = 4.35). The organisational environment factors affecting performance of strategic alliances were regulatory agencies (mean = 3.61), culture of firms in the alliance (mean = 3.50) and analysing PESTEL (mean = 4.38).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study was designed to achieve two specific objectives: to assess the determinants of strategic alliances in the airline industry in Kenya, and to determine factors affecting performance of strategic alliances in the airline industry in Kenya. The chapter presents summary of the discussions, conclusions and recommendations drawn after analysing the data.

5.2 Summary

The first objective of the study was to identify the determinants of strategic alliances. The study found that the determinants of strategic alliances in the airline industry were market entry and market position related motives (developing and widening route network, productivity of the firm, growth and market share and profitability of the firm) had a mean score of between 4.42 to 4.65 and average mean of 4.58 (greater extent).

Resource use efficiency-related motives and uncertainties (transit systems, use of assets, pre-empting competitors, and stabilization of prices) had mean score of between 3.04 to 4.35 and average of 3.62 (moderate extent) and standard and technology access factors (formulation of standards, access to new technologies, learning from partners, and regulatory agencies) had a mean of between 3.65 to 3.85 and average mean of 3.74(moderate extent). The standard deviation of market entry and market position was insignificant the rest showed significant variations

Secondly, factors influencing performance of strategic alliances were reviewed the study found that the factors influencing strategic alliance performance were organisation strategy factors (organisation strategy and alliance, similarity in the strategy with other firms, and review of progress of the alliance) which had a mean of between 1.70 to 3.80 with an average mean of 3.73 (moderate extent).

Management factors (structure of the organisation, organisational restructuring, employee contribution, employee commitment, and running of the alliance which had a mean of between 3.50 to 4.35 with an average mean of 4.02 (moderate extent), and organisational environment factors (regulatory agencies, culture of firms in the alliance, and analysing PESTEL), which had a mean of between 3.50 to 4.38 with an average mean of 3.83 (moderate extent). The standard deviation of management factors was insignificant the rest showed significant variations

5.3 Conclusion

The study concludes that the major determinants of strategic alliances in the airline industry in Kenya are market entry and market position-related motives, resource use efficiency-related motives and uncertainties, technical standard & access to new technologies. These broad determinants include developing and widening route network, productivity of the firm, growth and market share, profitability of the firm, transit systems, use of assets, pre-empting competitors, stabilization of prices, formulation of standards, access to new technologies, learning from partners, and regulatory agencies.

The study further concludes that the factors influencing performance of strategic alliances in the airline industry in Kenya are management of alliance, organisational environment,

and organisational strategy. These broad factors include organisation strategy & alliance, similarity in the strategy with other firms, review of progress of the alliance, structure of the organisation, organisational restructuring, employee contribution, employee commitment, running of the alliance, regulatory agencies, culture of firms in the alliance, and analysing PESTEL.

5.4 Recommendations

The study recommends that before forming strategic alliances, airlines should determine which areas are lacking, that is areas of weakness. This ensures that as they enter into the alliance the alliance will compliment them. Other factors that must be considered include the strategy of the partner, their resources, and their standards and technology used; these are very important reasons for joining an alliance.

The study further recommends that in order for alliances in the industry to succeed, such firms need to focus on how they manage the alliance with proper management the alliance is able to avoid fire fighting and concentrate on expansion, carefully scan their environment, and also relook at their strategies. These were found to be very significant factors for the success of an alliance.

5.5 Limitations of the Study

This study focused on the airline industry in Kenya. The results may not therefore apply to other firms in other industries. Such conclusions and interpretations should therefore be approached with utmost care.

Out of 36 airlines only 26 responded this gives a response rate of 73% with a non-response rate of 27% the respondents further failed to give additional information to the questions asked that could have been essential in coming up with further findings and conclusions.

This study relied on only one research design where data was collected using only one method. There are issues which might not have been captured using this methodology and therefore the study may have omitted some of the important issues on strategic alliances in the airline industry.

5.6 Suggestions for Further Research

The study recommends that more studies be done on this subject to establish other factors other than strategic factors that may significantly explain the performance of strategic alliance. This is important for the airline industry because, strategically, they seem to operate on the same levels and with the same intentions. A multi-step data collection method may also be employed in the future.

The study only looked at one form of strategic alliances that is horizontal alliances in the airline industry, there have been growth inter-modal alliances and external alliances in the airline industry airlines are now selling total package for holiday makers and thus entering into alliance with hotels and transport companies.

5.7 Implication on Policy, Theory and practice

The study will contribute to the existing vast body of knowledge in validating the need of strategic alliances in today's environment. The study validates the need for organizational

learning and consequently the theory of organization learning because specific knowledge can be transferred through licensing; tacit knowledge the knowledge embedded in an individual can only be transferred by learning alongside the individual and this can only be done when there is an alliance.

The world today has become a global village and the ability to expand one's market is key to success of any organization. Strategic alliances give an avenue of entry to any market while avoiding the red tape that comes with launching into those markets, the era of cut throat competition is slowly coming to an end this agrees with the Strategic behaviour theory.

The finding of this study further validates resource dependency theory that states organizations have specific resources but few organizations are self-sufficient in these resources and therefore must depend on others for important resources. A deficiency in one or more strategic resources (i.e. core competencies) is seen as the driving force for collaboration.

Resources are scarce and attract a cost to the organisation. From the synergy principle, value is created as the partners achieve mutually beneficial gains that neither would have been able to achieve individually, by pulling resources together. By entering into an alliance, organisations are able to access bigger resources that are needed to compete in the dynamic environment this validates the Resource Dependency Theory. Today, customers demand more and are also well informed. The ability to attract and retain customers lies on the organisation ability to provide a variety of services, for example a business man on a trip to Kenya will require the airline to provide for him transport to and from the airport and also organise a hotel where he will stay.

The findings of the study have several managerial implications for the airline industry; first managers are advised when entering into alliances to place more emphasis on market and market entry related motives as this was one of the reasons with the greatest consensus in the study. The ability to keep up with the standards in the market is also key because customers expect the same if not better services when transiting from one destination to the next. Through alliances, firms can increase their market power in order to gain a competitive position in their market, thus alliances as a strategy helps firms reduce competition.

The study also indicates that the success of any alliance rests on the management ability to manage the alliance. A well-managed alliance is able to grow and attract more organizations into the alliance. Employee commitment and understanding of the need for the alliance is also key to the success of any alliance. Management should ensure before entering into any alliance the Political, economic, social, technological and legal factors are carefully looked at to ensure that the alliance prospers.

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APPENDICES

Appendix 1: Letter of introduction to respondents

LickyKaruri

P.O.Box 49686-00100

Nairobi

(Date)

(Respondents Address)

Dear Sir/Madam,

RE: RESEARCH INFORMATION FOR AN MBA PROJECT

I am a postgraduate student undertaking a Master of Business Administration (MBA) degree at the school of business, University of Nairobi. As partial fulfillment of the requirement for the ward of MBA degree, I am conducting a survey on the “determinants of strategic alliance in the airline industry”. Your firm is one of them and I would like to kindly request for information regarding Strategic alliances your origination has been involved in.

The information you provide will not be used for any other purpose apart from its intended academic use. I hear by undertake not to make any reference to your name or that of your organization in any of my presentation or report hitherto the study.

A am aware that filling the questionnaire is time consuming and will greatly appreciate your assistance. Any additional information in form of comments or suggestions that you deem necessary to make my research finding more conclusive, relevant and reflective of the study area will be highly appreciated.

Thank you in advance.

Yours faithfully,

LickyKaruri

MBA Student

Appendix 2: Letter of Authority from the University



UNIVERSITY OF NAIROBI

MOMBASA CAMPUS

Telephone: 020-2059161
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 99560, 80107
Mombasa, Kenya

DATE: 18th July 2012

TO WHOM IT MAY CONCERN

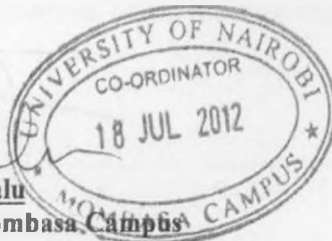
The bearer of this letter, **LICKY KARURI** of Registration number **D61/73610/2009** is a Master of Business Administration (MBA) student of the University of Nairobi, Mombasa Campus.

He is required to submit as part of his coursework assessment a research project report on a management problem. We would like the student to do his project on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him by allowing him to collect data within your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

Dr. Jackson Maalu
Coordinator, Mombasa Campus



Appendix 3: Questionnaire

Determinants of strategic alliances and Factors affecting performance of strategic alliance

Part 1: General information

1. What is your gender?

Male [] Female []

2. How long have you been working in this organization?

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3. What is your position in the organization?

.....

4. List the alliances the airlines has entered into that you are aware of for the last five years.

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Part 2: Determinants of Strategic alliances

5. List the various areas of operations that your organization has formed strategic alliances.

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The following are determinants of strategic alliances. In your opinion, please rate your level of agreement or disagreement based on the Likert scale 1-5 as shown below in reference to strategic alliances

1 = Strongly disagree

2 = Disagree

3 = Neither agree or disagree

4 = Agree

5 = Strongly Agree

No.	Statement	1	2	3	4	5
6	The strategic alliances have helped in developing and widening the route network.					
7	The productivity of the firm has improved over the life of the alliance					
8	The market share has grown over time and has improved the competitive advantage over competitors					
9	The profitability of the firm has been improving over the life of the strategic alliance					
10	Strategic alliances have improved the transit systems in the route network leading to better flow of passengers					
11	Strategic alliances have led to better and efficient use of assets e.g. lounges, docking gates, airplanes					

12	The airline has been able to acquire new technologies from partners in the alliance.					
13	The strategic alliance led to the formulating technical standards and dominant designs.					
14	The strategic alliance has preempted key competitors from entering into the market					
15	The employees of the company have benefited through learning from other partners in the alliance.					
16	The alliance has led to stabilization of prices in the market because of decrease in level of competition in the industry					
17	Would you say that the regulatory agencies support the formation of strategic alliances?					

Part 3: Factors affecting performance of strategic alliance

To what extent do the following factors affect the performance of strategic alliance?
Please rate your opinion as per the scales provided below

1= Very little extent

2= Little extent

3= Not at all

4 = Large extent

5 = Very large extent

No.	Statement	1	2	3	4	5
17	The company's organization strategy is congruent with the intention to form strategic alliances with other firms					
18	The company only engages in strategic alliances with other firms that share in the same strategy					
19	The structure of the organization supports the idea for strategic alliances					
20	Organizational re-structuring is normally reviewed on a need arise basis to ensure the strategic alliances are factored in to be successful					
21	The culture of the organization supports strategic alliances with other firms					
22	The company engages in strategic alliances with organizations whose cultures are the same as ours					
23	The employees of the company are committed in playing a major role in supporting strategic alliances					
24	The management of strategic alliances has been effective					
25	The employee commitment of the alliance has led to better strategic performance outcomes					
26	Management and employees have reviewed the progress and outcomes of the alliance on regular basis and made necessary changes					

27	Rules and regulations of the industry have affected the performance of the alliance					
28	The organization has been proactive in analyzing political and legal legislative to shape the strategic alliances					
29	The company only engages in strategic alliances after considering the economic , social cultural and environmental factors that could easily affect the performance of the strategic alliances					

17. Any other factors affecting performance of strategic alliance please specify.

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End of Questionnaire

Thank you for taking time to complete this questionnaire.

Appendix 4: List of International Airlines in Kenya

1. 748 Airline
2. Air Arabia
3. Air India
4. Air Mauritius
5. Air Mozambique
6. Air Tanzania
7. Air Uganda (Meridiana)
8. Blue Panorama
9. British Airways
10. Cargolux
11. Condor Airlines
12. Delta Connection Air
13. DHL
14. Egypt Air
15. Egypt Air Cargo
16. Ethiopian Airlines
17. Etihad airline
18. Fly Five Forty
19. JetLink
20. Kenya Airways
21. Lufthansa Cargo
22. MK Airlines

23. Precision Air
24. Qatar Airways
25. Royal Dutch Airlines – KLM
26. RwandAir
27. S. N. Brussels
28. Saudi Arabia Airlines
29. Skycargo (Emirates)
30. South African Airways
31. South African Cargo
32. Swiss International Air Lines
33. Thomsonfly
34. Turkish Airline
35. Virgin Atlantic Airways
36. Yemenia Air

Source: Kenya Airports Authority (2011)