

**STRATEGIC RESPONSE BY KENYA AIRWAYS TO  
CHALLENGES IN THE GLOBAL BUSINESS ARENA**

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REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS  
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# DECLARATION

## STUDENT'S DECLARATION

This project is my original work and has not been submitted for examination in any university.

Signature: .....Date:.....

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## SUPERVISOR'S DECLARATION

This research project has been submitted for examination with my approval as the University Supervisor.

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## **DEDICATION**

I dedicate this work to my family and all those who supported me in the completion of this project.

## **ABSTRACT**

The objective of the study was to determine how Kenya Airways responds to the challenges of global business arena. In doing this, the study sought to answer the following questions: establish the challenges of global business arena to Kenya Airways and establish how Kenya Airways has responded to these challenges.

The study applied case study research design where only one organization was involved. The study used primary data collected through interview guide administered to senior managers at the organization. Content analysis was used to do the analysis and the findings presented in a prose format.

KQ had circumvented various solutions to ensure that the challenges were minimized thus remaining profitable. On pricing, the institution restructured its costs and also provided special offers for its customers in order to remain competitive and gain a competitive edge over the others. Kenya Airways planned to launch JamboJet, a low-cost subsidiary to handle regional flight operations subsidiaries to handle local routes. On fleet modernization and growth, KQ was currently implementing its 10 year expansion strategy that entailed buying nine Boeing 787-800s Dreamliners, one Boeing 777-300ER and 10 Embraer-190 aircraft. The new routes opened by KQ within the past one year included direct flight to New Delhi, Kilimanjaro in Northern Tanzania and Eldoret in Rift Valley.

The airline should increase flexibility by adopting more sophisticated fleet assignment optimization models to match the right-sized aircraft to the stochastic and dynamic booking patterns of different routes.

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## **LIST OF ABBREVIATIONS AND ACRYONMS**

<b>CEO</b>	Chief Executive Officer
<b>E.A.B.</b>	East African Breweries Limited
<b>IBM</b>	International Business Machines
<b>KLM</b>	Koninklijke Luchtvaart Maatschappij
<b>KQ</b>	Kenya Airways



## **CHAPTER ONE:**

### **INTRODUCTION**

#### **1.1 Background of the Study**

Globalization is changing the environment that businesses are operating in to one that is characterized by an increasingly deep set of interdependent relationships between countries, organizations and individuals. The international trend toward globalization has been driven by a number of powerful forces, including crumbling trade barriers, fast-paced technological advances, declining telecommunication and transport costs, international migration, and a highly mobile investment community (Pearce and Robinson, 2007). As a consequence of these changes, firms are finding themselves having to compete against new, often multinational entrants seeking growth and expansion in locations previously beyond the economic reach of their existing operations. As local firms find themselves in a changing environment subject to the influences of global competition, they are forced to reassess their competition mode and view the industry around them through fresh eyes (Johnson and Scholes, 2002).

Air travel remains a large and growing industry. It facilitates economic growth, world trade, international investment and tourism and is therefore central to the globalization, taking place in many other industries. In order to appeal to prospective shareholders, the airlines have to become more efficient and competitive. Airlines' profitability is closely tied to economic growth and trade. Airlines have had to recognize the need for radical change to ensure their survival and prosperity. For airlines, the future will hold many challenges. Successful airlines will be those that continue to tackle their costs and

improve their products, thereby securing a strong presence in the key world aviation markets (Stanford University, 2008). The key issues facing today's airlines are optimization, improved capacity, cost savings and the ability to react quickly to changes. The portfolio of solutions for airline planning and control ranges from network planning, code share handling and crew management, to pricing, price distribution and revenue management. The portfolio is rounded out by business intelligence services, marketing and sales solutions, and consulting (Lufthansa Systems, 2008).

### **1.1.1 Strategic Responses**

Strategic responses are concerned with decisions and actions meant to achieve business objectives and purpose. Strategic response is the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives (Pearce and Robinson, 1997). They help the firm align itself with the changes in its both internal and external environment. Porter (1998), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy (Pearce and Robinson, 2007). Reengineering, downsizing, self-management and outsourcing are some of the dominant strategies that have been used for restructuring in the 1990's. Ansoff and McDonnell (1990) asserts that the management system used by a firm is a determining component of the firm's responsiveness to environment changes because it determines the way that management perceives the environment, diagnosis their impact on the firm, decides what to do and implements the decisions.

Strategic response requires organizations to change their strategy to match the environment and also to redesign their internal capability to match this strategy (Porter, 1985). Firms in dynamic industries respond to environmental changes and competitive forces in different ways. Some improve current products, diversify and divest, while others employ techniques that ensure operational effectiveness (Migunde, 2000).

### **1.1.2 Concept of Globalization**

Globalization is the integration of economies throughout the world by means of trade, financial and technological flows, the exchange of technology and information and the movement of people, goods and services (Bolton and Roland, 1997). It can be described as a process by which the people of the world are unified into a single society and function together. This process is a combination of economic, technological, socio-cultural and political forces (Sheila, 2004). Globalization to Johnson and Scholes (2002) also refers to the strategy of approaching worldwide markets with standardized products. According to Pearce and Robinson (2003), such markets are commonly created by end customers who prefer lower priced standardized products, over the higher priced, customized products, and by global corporations that use their worldwide operations to compete in local markets (Bhagwati, 2004). Globalization as noted by Ohmae (1989) comes in various forms affecting various sectors of the society.

International integration of markets is facilitating decentralization by reducing the economic costs of smallness (Alesina and Spolaore, 1997). Technological changes and global integration of factor markets have changed the size of government needed to manage economic systems. Now an increasing number of public services can be efficiently provided by decentralized and often private organizations (World Bank 1995).

Further, as argued by Schneidr (2003), free trade, international treaties and loan conditions have led central governments to choose or be forced to abdicate their traditional roles and leave critical functions to non-central government entities if they were to be performed at all. On the other hand international integration of markets has also increased demands for a) fiscal stabilization covering the entire country and b) insurance for regions adversely affected by asymmetric economic shocks. Both fiscal stabilization and inter-regional risk-sharing require a pooling of economic resources at the center (Garrett and Rodden, 2003).

### **1.1.3 Concept of International Business**

International business refers to the performance of trade and investment activities by firms across national borders. They seek foreign customers and engage in collaborative relationships with foreign business partners. While international business is primarily carried out by individual firms, governments and international agencies also engage in international business transactions. International trade may be defined as a contract of buying and selling goods and services entered into between parties whose places of business are in different countries or trade in goods and services that cut across international borders or between nationals of different countries. This involves imports from one country to another and or exports to one country from another country or boundary trade (Nair, 1997). International trade has become not only a means by which those nations source those goods and services they lack or do not have in sufficient quantities, but also a subject of international politics either for achieving, promoting or maintaining peace between international trading partners or countries.

The concern of international trade is the pattern of flow of goods, services and capital across national borders and their effect on the balance of payment and resources transfers. The choice of entry mode depends on the risk a company is prepared to take and the desired degree of control (Farhang, 1990). The choice of entry mode normally changes over time, in a rather predictable way; a company becomes more experienced over time, so it is likely to take more risk. One of the main problems regarding market entry decisions is the fact that it is ill-defined, complex and dynamic. According to the hierarchical model of market entry strategies, the main criterion for the choice of entry strategies is whether the company engages in equity or non-equity entry modes. Non equity entry strategies often require less financial and organizational resources and capabilities of the organization than equity strategy. Also, cost, commitment, risk, return, and control involved is often more limited than in case of equity entry strategies (Peng, 2006).

#### **1.1.4 Airline Industry in Kenya**

The airline industry in Kenya is run by several airline companies including those operating international routes and local routes. The industry has become very competitive as more and more airline companies launched their operations in Kenya. Kenya Airways KQ commands a good presence within the African region although there has been increased competition on key routes coupled with pricing pressure lately. Competitors have launched flights on major routes, for example the Virgin Atlantic flying in the Nairobi–London route with other destinations across the world. Qatar Airways has been effective in various Middle East and Europe destinations while Emirates Airlines has also been competitive in Africa and the rest of the world. Air Arabia also raised the bar on

competition especially on the pricing front. It is also worth to note that, the Middle East carriers have been competing with KQ on the pricing. Rwandair, Fly540, Air Uganda, JetLink and Precision Air, among others, have enhanced their presence in the region on the back of new routes' expansion and increased frequency on existing destinations.

### **1.1.5 Kenya Airways**

Kenya Airways Ltd., more commonly known as Kenya Airways (KQ), is the flag carrier and largest airline of Kenya. KQ prides itself as the African Airline and hence plans to increase concentration on the African routes. The company was founded in 1977, after the dissolution of East African Airways. The carrier's head office is located in Embakasi, Nairobi, with its hub at Jomo Kenyatta International Airport. The cargo handling company African Cargo Handling Limited is a wholly owned subsidiary of Kenya Airways; partly owned companies are Kenya Airfreight Handling Limited, dedicated to the cargo handling of perishable goods and 51%-owned and Tanzanian carrier Precision Air (49%-owned). The airline was wholly owned by the Government of Kenya until April 1995, and it was privatized in 1996, becoming the first African flag carrier in successfully doing so. Kenya Airways is currently a public-private partnership. The largest shareholder is the Government of Kenya (29.8. %), followed by KLM, which has a 26.73% stake in the company. The rest of the shares are held by private owners; shares are traded in the Nairobi Stock Exchange, the Dar-es-Salaam Stock Exchange, and the Uganda Securities Exchange.

Kenya Airways is widely considered as one of the leading Sub-Saharan operators. The carrier became a full member of SkyTeam in June 2010, and is also a member of the

African Airlines Association since 1977. As of June 2012, the airline has 4,834 employees. In June 2012 the company announced the issuance of rights worth KSh 20 billion, aimed at increasing capital to support expansion plans. Following the allocation of shares, KLM increased their stake in the company from 26% to 26.73%, while the Kenyan government boosted their participation into the company from 23% to 29.8%, becoming the new major shareholder of the carrier. Kenya Airways (KQ) operates domestic, regional and long-haul routes from its Nairobi hub. Kenya Airways operates: domestic routes between Nairobi and Mombasa, Kisumu and Eldoret; regional routes to Entebbe, Kigali, Dar es Salaam, Zanzibar and Kilimanjaro, from Nairobi and Mombasa; routes to Southern Africa (Johannesburg, Ndola, Seychelles, Lilongwe, Lusaka and Lubumbashi), North-East Africa (Addis Ababa, Cairo, Khartoum and Djibouti) and Central and Western Africa (Douala, Lagos, Accra, Abidjan and Kinshasa); intercontinental routes to Europe (London and Amsterdam) and Asia (Dubai, Bombay, Bangkok and Hong-Kong).

## **1.2 Research Problem**

Competitive threats from multinational players across the globe are increasingly making domestic players more conscious of their vulnerable state and incentivizing them to proactively engage in an effort to ensure their sustainability in these turbulent times. Industries are brimming with signs of change as firms across the world scramble to take hold of resources and markets, both domestic and across borders in the face of increasing global competition. Organizations that are subjected to this globalised environment, characterized by fierce competition and chaotic change, are finding it increasingly important to focus on the manner in which their responses are undertaken and their

strategies formulated. Previous research has provided much insight into the tools and mechanisms that facilitate a comprehensive scanning of the environment, but relatively little that provides insight into the dynamics of the strategy formulation process (Boyd *et al.*, 2001).

Airlines are operated in an extremely dynamic, and often highly volatile, commercial environment. The airline industry is constantly undergoing change, and the ability to react and adjust swiftly is imperative. The need to improve safety, reliability, and customer appeal while offering competitive prices is an ever-present challenge. Meanwhile, airlines face the following pressures: Globalization and the trend toward mergers and alliances require the flexibility to adjust accordingly; world financial instability and eroding yields make it more important than ever to streamline processes, reduce redundancies, and simplify system architecture to lower costs; because the industry is so competitive, airline operators must analyze every aspect of their business – and that requires fast, flexible, and focused access to information for sound decision making; and quality customer service differentiates one airline from the other – and helps secure customer loyalty. Due to traffic growth, the Kenya Airways now achieves a 75% load factor system-wide; expansion of routes creates added strain on the carrier's capacity and purchase of additional aircraft is underway (10 more in the next five years). After a period when conservative strategies had to be carried out so as to gain financial strength, the airline is now in a position to carry out more aggressive approaches and a more ambitious revised strategic plan is being adopted. More destinations are to be served, especially in Africa and the Far East. Future expansion will require the Government of Kenya to negotiate additional agreements (those with Turkey and China are underway).



Studies that have been done relating to the topic include: Muturi (2000) strategic responses by firms facing changed competitive conditions – E.A.B. Ltd; Chepkwony (2001) strategic responses of petroleum firms in Kenya to challenges of increased competition in the industry; Isaboke (2001) an investigation of the strategic responses by major oil companies in Kenya to the threat of new entrants; Kandie (2001) did a study of the strategic responses by Telkom Kenya ltd in a competitive environment. Gichira (2007) studied the challenges of globalization and their impact on Kenya Airways. Hannah (2007) studied the implications of globalization on private hire vehicle companies in Nairobi and Mwasho (2007) did a survey on strategic responses to globalization by foreign commercial banks in Kenya, a case of Barclays Bank. Therefore this study sought to fill the research gap by determining how Kenya Airways responds to the challenges of global business arena. In doing this, the study sought to answer the following questions:

- i) What are the challenges of global business arena to Kenya Airways?
- ii) How has Kenya Airways responded to these challenges?

### **1.3 Research Objective**

The objective of the study was to determine how Kenya Airways responds to the challenges of global business arena.

### **1.4 Value of the Study**

The study would benefit the management of Kenya Airways and other airline companies in understanding the effective strategic response to international markets. The management would be able to react to international competition by expanding to new markets, diversifying or specialization.

The study would also benefit the Governments and policy makers in the airline industry in that they will be able to provide the leadership that the airline industry needs by formulating policies that that will lead to markets liberalization. They would recognize the need to move in the right direction since reform is now necessary to support the long-term health of the industry.

The study would further add literature to the body of knowledge. The researchers and academic community would use this study as a stepping stone for further studies. The students and academics will use this study as a reference and a basis for discussions on the strategic response to international competition.

# **CHAPTER TWO**

## **LITERATURE REVIEW**

### **2.1 Introduction**

This chapter deals with the available literature that has been reviewed for the study. The literature is mainly on the strategic responses to the challenges of globalization. The chapter is hence structured into the concept of strategic responses, globalization, organization-environment interface and strategic response strategies to international competition.

### **2.2 Organization-environment interface**

A business does not function in a vacuum. It has to act and react to what happens outside the factory and office walls. These factors that happen outside the business are known as external factors or influences. These will affect the main internal functions of the business and possibly the objectives of the business and its strategies. The main factor that affects most business is the degree of competition – how fiercely other businesses compete with the services that another business makes.

The other factors that can affect the business are social, legal, economic, political, technological and ethical factors. Social factors refer to how consumers, households and communities behave and their beliefs, for instance, changes in attitude towards health, or a greater number of pensioners in a population (Ansoff and McDonnell, 1990). Legal factors refer to the way in which legislation in society affects the business, for example, changes in employment laws on working hours. Economic factors refer to how the economy affects a business in terms of taxation, government spending, general demand,

interest rates, exchange rates and global economic factors. Political factors refer to how changes in government policy might affect the business e.g. a decision to subsidize building new houses in an area could be good for a local brick works. Technological changes refer to how the rapid pace of change in production processes and product innovation affect a business. Lastly, ethical factors refer to what is regarded as morally right or wrong for a business to do.

### **2.2.1 Concept of Strategic Response**

Strategic responses are concerned with decisions and actions meant to achieve business objectives and purpose. Three areas of a company strategy are important in identifying the responses of a firm to its environmental challenges. These include objective setting, the vision and mission of the company, competitive strategy where after considerations of the firm's competitive strengths and weaknesses vis-à-vis competition and customer needs, the company establishes a position of competitive advantage (Lowes *et. al.*, 1994). Ansoff and McDonnell (1990) noted that strategic responses involve changes in the firm's strategic behaviors to assure success in transforming future environment. Pearce and Robinson (1997) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the economic environment of organizations. Porter (1998), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization.

Burnes (1998) asserts that the concern in real time responses is to minimize the sum to total losses and restore profitability to ensure organization's success in a turbulent and surprising environment. Hill and Jones (2001), states that by planning, an organization is

able to identify the problems and plan how to solve them by using appropriate strategies. In the strategic decision making process of organizations, there are three levels of strategy under the strategic responses that is, corporate –level strategy, business –level strategy, and operational – level strategy.

### **2.2.2 Globalization**

The essence of strategy is to relate the organization to the changes in the environment (Ansoff, 1990). Organizations therefore have to respond to relevant strategies that match the changed environment of which failure to respond may lead to organizational decline or obsolescent. Strategy implementation has to be supported by resources and competencies of the organization. This make up the strategic capability. Just as there are outside influences on the organization and its choice of strategies, so there are internal influences. These comprises of the organization’s strengths and weaknesses (Johnson and Scholes, 2002). Thomson, (1994) emphasizes on the internal processes that he says can add value to an organization. Porter (1998) also emphasizes on the importance of internal capability by pointing out that companies must be flexible to respond rapidly to competitive and market changes. They must nurture a few competencies in the race to stay ahead of the competition.

### **2.3 Strategic Response to International Competition**

According to Dawar and Frost (1999) local companies forced to deal with the entrance of multinational competitors have more options and advantages than may initially appear to be the case. Management often feels coerced to capitulate to one of three options when faced with these circumstances: turning to government for support; subordinating the organization to the multinational; or conceding and selling the business outright.

Competition forces companies to constantly engage in offensive and defensive marketing strategies. Rivalry occurs because one or more competitors either feels the pressure or sees an opportunity to enter an industry or to improve its position within an industry. In most cases, competitive moves by one firm have noticeable effects on its competitors and, thus, may invite retaliation or efforts to counter the move (Porter, 1980). Companies respond to competitor challenges by counterattacking with increasing advertising expenditures, cutting prices, increasing innovation, and introducing new products, or even accommodating the entrant by doing nothing or decreasing the level of marketing effort (Karakaya and Yannopoulos, 2011).

### **2.3.1 Defensive Strategies**

The established firms need to engage in defensive strategies to fend off the various challengers because of ongoing rivalry. The primary purpose of defensive strategy is to make a possible attack unattractive and discourage potential challengers from attacking another firm. Incumbents try to shape the challenger's expectations about the industry's profitability and convince them that the return on their investment will be so low that it does not warrant making an investment in that industry. Defensive strategies work better when they take place before the challenger makes an investment in the industry, or if they enter the industry before exit barriers are raised, making it difficult for the challenger to leave the industry (Porter, 1985).

Fortify and Defend strategy attempts to build barriers to entry for competitors. The purpose of defensive marketing strategies is to lower the inducement to attack. Firms frequently enter an industry because existing firms earn high profits. The higher the profits earned by incumbent firms, the higher the motivation to enter. Thus, the

inducement to attack can be lowered by reducing the profit expectations of the entrant. This can be achieved by raising barriers to entry for new competitors. Erecting barriers usually hinders entry by new competitors because they will have to incur costs not born by existing competitors. The most common barriers to entry include economies of scale, product differentiation, capital requirements, switching costs, experience curve cost reductions, proprietary technology or patents, access to raw materials and other inputs, access to distribution channels, and location (Yannopoulos, 2007).

Dawar and Frost (1999) propose that a company operating with weak pressures to globalize, and assets that are not transferable, should “defend” its market against multinational attack. This broad response would suggest a series of actions that are implemented with the intention of retaining market share in the domestic environment where the firm is accustomed to operating. If globalization pressures are weak but the company assets are transferable, the company could consider “extending” its success to other prospective markets (Dawar and Frost, 1999). Covering all bases, also called product proliferation, entails introducing new products to ensure a full product line or to fill gaps in the market. Covering all bases may involve introducing multiple versions of a product in terms of models or product types. Many firms carry full product lines to block access to the industry by new entrants. For example, the leading ready-to-eat cereal companies compete with a full-line, making it very difficult for other companies to enter and threaten their position (Baum and Korn, 1996).

This strategy is also used by chain stores when they rush to expand rapidly and keep competitors out of the market. A firm that floods the market avoids being outflanked by competitors. It is also a way to tie up distribution channels and shelf space. For example,

Procter & Gamble dominates retail shelf space with products such as Ivory Soap, Crest, Tide, Pantene Pro-V and many others. A firm that is trying to cover all bases may face one or more of the following difficulties. First, some firms, especially the small ones, may not have the resources to offer a full product line. Second, product proliferation may cause a firm to spread its resources too thinly, violating the principle of concentration of forces at the decisive point (Porter, 1985). Covering too many markets and overextending itself, leaves a firm vulnerable to competitor attacks, as it makes for an easy target. A special case of the cover-all-bases strategy is the introduction of a blocking brand. Blocking brands are used by incumbent firms to block access to the market by potential entrants. The firm introduces a brand designed to fill a niche in the market that could be used as a point of entry by a competitor. The intent of introducing a blocking brand often is to protect an existing profitable brand by precluding competitors from entering the market and stealing market share by undercutting the price of the existing product (Porter, 1985).

When a company enters an existing market its objective usually is to get established first in its chosen market segment, consolidate its position, and then start expanding into other market segments. Upstarts are especially dangerous if they enter the market by breaking the rules of the game with radically new products, or innovations in pricing, distribution, delivery, service, and positioning. New entrants entering markets with radically new products usually come from markets unrelated to that which they are invading (Porter, 1985). For example, the personal computer industry was not invented by IBM but by companies such as Apple and Microsoft - unrelated to the existing mainframe or mini-computer business. Established firms need to defend their position while their newly



entered opponents are small and vulnerable rather than waiting until they become strong and a serious threat. Market leaders, by consistently and swiftly meeting any moves intended to challenge their position, send out a clear message to would-be-challengers that aggressive behavior, such as price cutting or entering core segments, will not be tolerated and that it will be met with a rigorous and painful retaliation. Therefore, such actions would not pay off and would probably make the challenger worse off. In an effort to limit losses, such counter-attacks often are not broadly based, but involve only a market segment of the defending company (Markides, 2000).

Engage in Cross-Parry allows many companies to compete with other companies in more than one market. The degree of multimarket contact between two firms affects the intensity of rivalry and the extent of retaliation amongst these firms. Competitors interacting in multiple markets are less motivated to compete aggressively because of the possibility of retaliation across various markets (Edwards, 1955). On the contrary, competitors have an incentive to cooperate since they stand to gain if they allow their rivals to dominate certain markets in exchange for similar treatment in the markets in which they are dominant. If multimarket contact is low, firms have an incentive to enter the market segment of their rivals to gain the ability to engage in multi market retaliation, should they come under attack (Karnani and Wernerfelt, 1985). For this reason, firms prefer to stay in certain markets to maintain the threat of multi market retaliation. Also, as multi market contact increases, firms may avoid entering new markets that are already occupied to avoid provoking any multi-market retaliation and to honor any tacit agreements that they may have made with their competitors (Baum and Korn, 1996).

Cross-Parry is used when a firm that is challenged by a competitor in one area chooses to challenge this competitor in another area. For example, if a company is attacked in one of its core markets or products, instead of retaliating at the point of attack, it counter-attacks in the challenger's area of strength. In a sense, the cross-parry strategy says, "If you hurt me I will hurt you where it hurts most." By attacking the challenger in its core area, the defending firm diverts attention from its own core area and attacks the challenger where it hurts most. The objective of a cross-parry strategy is often to avoid involving the core brand in a price war. The larger firm stands to lose more than the smaller firm. In addition, such a price war not only leads to lower profit margins but it could permanently tarnish a premium brand's image. Cross parrying may be also used to send a signal to the challenging firm that it will suffer more than the cross-parrying firm. For instance, how should a company enjoying a large market share and profit margins respond when a competitor lowers its price in an effort to take market share away from the large market share firm? The natural response would be to go on the counter-attack and attack the challenger with a similar or even greater price reduction. Such a move could be quite costly for the large share firm since it would mean lower margins on a large volume just to recover the small market share lost to the challenger; If the challenger operates in another market segment that is important to its business, but not to its competitor, a smarter move would be to attack the challenger by cutting the price in that segment (Karnani and Wernerfelt, 1985).

Capacity expansion is a credible deterrent strategy if capacity costs are very high. Otherwise, if the cost of adding capacity is low or capacity can be utilized for other purposes, it would be relatively easy for rivals to enter. Manufacturing firms may build

excess capacity as an entry deterrent strategy. When a potential entrant realizes that the industry has excess capacity and its own entry will only add to the volume of unutilized industry capacity, it will be reluctant to enter. DuPont used capacity expansion to increase its market share in the titanium dioxide market. In 1970, DuPont had been using ilmenite in the production of titanium dioxide. This proved advantageous since the price of rutile ore, the raw material used primarily by its competitors, sharply increased, giving DuPont a significant cost advantage over its competitors. In order to maximize this cost advantage, DuPont developed a growth strategy of rapidly expanding capacity to satisfy all of the future increases in demand and deter entry or expansion by existing competitors. At the time DuPont adopted this strategy, in 1972, its market share was 30%. By 1985, its market share was over 50% and five of its major rivals had exited the market (Cabral, 2000). As a defensive strategy, capacity expansion is not as powerful as other entry deterrents such as barriers to entry. In general, a decision to use capacity expansion for entry deterring reasons should take into account the size of barriers to entry. If entry barriers are high, then capacity expansion should not normally be used as a deterrent. On the other hand, if entry barriers are low, incumbents should consider using capacity expansion as an entry-deterring device, taking into account the cost of additional capacity and its reversibility (Yannopoulos, 2007).

### **2.3.2 Offensive Strategies**

Firms engage in offensive marketing strategies to improve their own competitive position by taking market share away from rivals. Offensive strategies include direct and indirect attacks or moving into new markets to avoid incumbent competitors. If a firm possesses superior resources a direct attack may be called for. However, if a firm faces superior

rivals, indirect attacks are more appropriate than direct, frontal attacks. Direct attacks invite retaliatory responses especially if they pose a serious threat to the defending firm (Porter, 1985). Indirect attacks are less likely to elicit a competitive response because that is difficult to detect, especially if they are targeted towards non-core segments or products.

Frontal attack strategy is an offensive strategy that involves attacking a competitor head-on. Frontal attacks can be pure frontal attacks by going after the customers of the attacked firm with similar products, prices, promotion, and distribution. Such attacks are very risky, however, because victory is never assured unless the aggressor has a clear competitive advantage over the defendant. For this reason, a modified frontal attack – a limited version of the pure frontal attack – may be a more appropriate choice. Modified frontal attacks can be price-based where the attacker matches the rival's product in terms of features and quality but it offers a lower price. Modified frontal attacks may also be value- or quality-based involving challenging rivals with products that offer superior value or quality at competitive prices.

Frontal attacks succeed better when the attacker concentrates its resources on its rivals' centre of gravity or weakest point (Karakaya and Yannopoulos, 2011). Once the center of gravity is identified, the challenger needs to concentrate its resources, even diverting resources from other activities, at the point of attack. If such a point is not found then the attacker requires at least three times the resources of its rivals to have a better chance of winning the battle. In cases where the defending firm is well entrenched, the attacking firm needs even greater than three to one resources. Companies entrenched in their local markets are especially difficult to defeat as they hold the high ground due to years of

serving their communities and having developed loyalties with their customers. For example, Xerox, and Univac tried to frontally attack IBM in the past in its mainframe business and they failed because they lacked any competitive advantages or clear superiority over IBM (Scherer, 1980).

A flanking attack is an offensive marketing strategy used to exploit an opponent's weaknesses while avoiding the risks associated with other offensive marketing strategies such as frontal attacks. Flank attacks are based on the principle of the path of least resistance, attacking competitors in areas which they are least capable of defending. For instance, some segments are not served well by major competitors because they do not see them as important enough to warrant more attention, or they are less profitable than other segments. If competitors offer poor service or inflexible terms to their customers, flanking firms could exploit this opportunity by improving service and offering better terms. If the incumbent's product is too expensive a flanking firm could offer its product at lower prices (Porter, 1985). By offering low mortgage rates, and a variety of insurance and banking services with no service charges, President's Choice's tactics may appear attractive to those customers who are looking at low rates or despise the higher rates service charges imposed by the big banks (Spulber, 1998).

Firms using the flanking attack strategy should try to escape detection by established competitors to avoid retaliation. The flanking firm should lie low and avoid showing up on the radar screen of established competitors by concealing its true intentions. It should try to appear as a specialist interested only in its niche and not in its competitors' markets. Also it should give the impression that it is in a different line of business. The more different the entrant's product is, the better the chance of not being detected. Also,

successful flank attackers differentiate their products in a way that appears to be in a different category to avoid direct confrontation with established competitors (Spulber, 1998). For example, if incumbents dominate the low end of the market, an entrant might offer a premium version of the product. A flanking strategy involves a number of risks which may jeopardize the outcome of such a strategy. Competitors being flanked may retaliate by attacking the flanking firm in its niche. The flanking firm needs to assess the odds of such a counter-attack and how it could best respond if this happens. Also, firms successfully pursuing flanking attacks eventually find themselves in direct competition with their larger rivals making a direct confrontation inevitable.

Seek undefended markets entails avoiding head-on confrontations with entrenched rivals that often lead to aggressive price-cutting, advertising wars, or costly efforts to outspend or out differentiate their products. Its aim is to by-pass competitors altogether and be the first to move into markets that are not currently served by existing suppliers, or to develop radically new technologies to leapfrog the competition, making existing products obsolete and creating new markets. Seek undefended markets strategies are often undertaken by firms that do not have the resources needed for successfully competing against industry leaders or they are necessitated by the existence of highly competitive conditions that make it very difficult to compete effectively (Baum and Korn, 1996).

A company that followed this strategy is Pepsi-Cola. When Roger Enrico became CEO of PepsiCo, he realized that going head-to-head with Coca-Cola in every market, especially in those markets that Coca-Cola dominates, was a self-defeating strategy. Instead, they concentrated on emerging uncontested markets. Pepsi-Cola shed restaurants and spun off bottling operations and developed a strategy that centered on the supermarket, a

battleground where it had triumphed in the past. As a result of the change in focus, soft drinks accounted for a much smaller percentage of Pepsi's market share in 2000. Frito-Lay, which controls two-fifths of the world market for salty snacks, generated more than 71% of PepsiCo's profits in the fourth quarter of 2000.

The addition of Tropicana helped strengthen Pepsi-Cola's position with retailers because of that brand's huge importance. Tropicana, the nation's top-selling orange juice, surpassed Campbell soup as the third-largest grocery brand in late January of 2000, behind Coca-Cola Classic and Pepsi-Cola. During the same period, Pepsi's Aquafina was the No. 1 brand in the fast growing bottled water category, while PepsiCo's Mountain Dew edged out Diet Coke for third place in the soft drink category. The company seeks undefended markets strategy is not without risks. First, firms using this strategy need to make sure that they have the skills and resources needed to successfully develop new products and enter new markets. Second, by entering new product markets, a firm may in fact end up conceding part of its existing business to competitors. By concentrating its efforts on developing the new business, the firm may take its eyes off the ball and allow its competitors to strengthen their position in the firm's core business and then use that strength to attack the bypassing firm (Cabral, 2000).

The Pivot and the Hammer strategy combine defensive and offensive strategies and it is a strategy associated with Evan Dudik, a business strategist (Dudik, 2000). According to Dudik (2000), every business strategy should have a Pivot and a Hammer. The Pivot represents a firm's efforts to hold its market position, defend it against competitors, and retain customers. The Pivot includes distinctive competencies – such as a strong brand name, low cost, or superior innovation skills – to defend its position. For example, a firm

such as Kenya Airways may use its well-recognized name to fend off any attacks and protect its current position, or to retain customers and maintain its share of the market. Other firms may rely on their most profitable products as cash cows to finance any expansion opportunities.

Each Pivot contains one or more Bearings. A Bearing can be certain key competencies, assets, skills or people which the company relies on to perform its defensive action. A Bearing could be a highly skilled employee, a very effective purchasing manager or a very specialized asset. For example, Microsoft's Pivot may be its Windows operating system and its Bearing is, arguably, Bill Gates as it is very questionable that Microsoft would be where it is today without the hard driven and motivated Bill Gates. The Hammer is the central offensive force of the company and the cutting edge of the attack. It is where the company concentrates its offensive forces and pushes to exploit its advantages. It is where the company tries to attract new customers, attacks competitors for capturing their customers, or pushes for expansion into new markets. While the Pivot is trying to maintain the current market position and defend against competitor attacks, the Hammer is where the firm tries to grow and expand its sales and market share. Without a Hammer, a company is, in effect, pursuing a harvest strategy, which will inevitably cause the firm to decline. A firm needs a Pivot to survive, but it needs a Hammer to grow and win new business. The success of the Hammer depends on the effectiveness of the Pivot. If the Pivot is doing a good job in defending the firm's current business and profitability, more resources can be channeled into the Hammer to enable it to do its job (Dudik, 2000).



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter sets out various stages and phases that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. This identifies the research design, data collection and analysis.

#### **3.2 Research Design**

The researcher applied a case study design. Yin, (1994) said that to refer to a work as a case study might mean that its method is qualitative, small-*N*; and that the research is ethnographic, clinical, participant-observation, or otherwise “in the field”.

According to Yin (2003) a case study design should be considered when: the focus of the study is to answer “how” and “why” questions; you cannot manipulate the behavior of those involved in the study; you want to cover contextual conditions because you believe they are relevant to the phenomenon under study; or the boundaries are not clear between the phenomenon and context.

#### **3.3 Data Collection**

The study used primary and secondary data. Primary data was collected through face to face interview with the researcher while secondary data was collected through review of the contents of various relevant publications and reports at the Kenya Airways. The researcher administered interviews to the identified officers at their place of work to reduce interruptions to their daily duties and ensure a high response rate. The respondents

comprised senior managers at Kenya Airways because of their key role in strategic decision making. Specifically, these included: Chief Financial Officer, Flight Operations Director, Chief Financial Officer, Ground Services Officer, Sales Director, Head of Operations and Control and Fleet Managers.

Secondary data was collected from the Company's published financial statements and other publications deemed necessary. Some of these included: the company's strategic plan, marketing plan and other publications by the Company.

### **3.4 Data Analysis**

The data obtained from the interview guide was analyzed using content analysis. Nachmias and Nachmias (1996) define content analysis as any technique used to make inferences through systematic and objective identification of specified characteristics of messages.

Kothari (2004) explains content analysis as the analysis of the contents of documentary and verbal material, and describes it as a qualitative analysis concerning the general import of message of the existing documents and measure pervasiveness. The researcher analyzed the information provided by the interviewees against known strategic response strategic concepts and models to describe and determine how Kenya Airways responds to the challenges of global business arena.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This chapter presents analysis and findings of the study as set out in the research methodology. The results are presented on how Kenya Airways responds to the challenges of global business arena. The data was gathered exclusively from an interview guide as the research instrument which was designed in line with the objectives of the study.

From the study, 6 out of the 7 respondents targeted participated in the interview giving a response rate of 86%. This commendable response rate was made a reality after extra efforts were made via personal calls and visits to book appointments with the interviewees and informing them of the importance of this research. This response rate was excellent and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

#### **4.2 Kenya Airways Review Their Strategic Plan**

The study sought to establish the frequency with which Kenya Airways reviewed their strategic Plan. The interviewees indicated that the Airline reviewed its strategic plan after every 10 years that would see the Airline implement and accomplish its growth strategies. However, the strategic plan was developed with short term deliverables which consolidated to make up the 10 years strategic plan. The interviewees also indicated that the strategic plan was subject to internal reviews from time to time depending on the

changes in the immediate operating environment so as to maintain the competitiveness of the Airline.

#### **4.3 Competition on International Market**

The interviewees were requested to provide information on the Airlines offering competition to Kenya Airways. In research findings, the interviewees indicated that Kenya Airways had been facing stiff competition on international market. Some of the identified international competitors includes: British airways, South African Airways, Ethiopian Airlines and Egypt Air. The interviewees indicated that excessive competition was due to deregulation in some countries and liberalization in others which created room for entry of more players hence increased competition. In addition, the interviewees indicated that economies of scale, density, scope, overcapacity, overlapping, and hub and spoke systems that were disproportionate in size relative to the size of origin-destination traffic also contributed to excessive competitiveness in the airline industry.

#### **4.4 Challenges Facing Kenya Airways Due To Competition**

The study required the interviewees to identify the challenges some of the competitors had caused to Kenya Airways. From the findings, the interviewees indicated that Kenya Airways encountered the challenge of pricing where airlines changed their prices not just daily but many times a day due to causing the management of the KQ to make decisions regarding pricing and capacity by the hour which made planning extremely risky. This was also due to irrational competitive moves relating to fares where some developing countries allowed weak airlines to operate without paying landing fees or taxes or when a government subsidized its flag carrier which dumps low fares in the market that forced Kenya Airways to introduce low fares hence leading to unfair competition and market

distortion. This in turn led to reduced profitability of the organization in the wake of increased operational costs.

Another challenge facing Kenya Airways was route connectivity that was caused by irrational behavior of the airline due to the constraints of the infrastructure. This had forced the airline to schedule flights with low load factors in order to protect slots, use a high capacity aircraft and limit frequency due to the limited availability of slots, or operated a very late night flight from one airport to neighboring airport and a return in the very early morning hours due to unavailability of overnight gates, parking or maintenance.

The interviewees also indicated that KQ was faced with the challenge of improving their service quality where the passengers and crews blame the management of poor scheduling of aircraft and crews due to the problem of route connectivity. The bad publicity relating to poor operations when the situations was not under their control such delays due to insufficient airport and air traffic control capacity. There were many complains of passenger mistreatment and theft of stuff from luggage of the same

#### **4.5 Kenya Airway's Solutions to the Challenges**

KQ had circumvented various solutions to ensure that the challenges were minimized thus remaining profitable. On pricing, the institution restructured its costs and also provided special offers for its customers in order to remain competitive and gain a competitive edge over the others. Regarding the routes connectivity, KQ management set up the strategic departure times and frequencies where customers were allowed to check

flight timetable online and also book their flights online which was convenient to the customers with busy schedules.

In order for the KQ to enhance its service quality and satisfy its customers effectively, the company had embarked on training its staff through refresher courses and other training and development programs on various aspects of the company to increase employee competency. The company also announced a staff restructuring programme that is yet to begin. The company is also in the process of outsourcing labor and services in some of the non-core functions of the airline so as to improve its performance.

#### **4.6 Strategies to Respond to International Competition**

The interviewees were also required to name some of the strategies employed by the company in responding to international competition. The interviewees indicated that the company decided to expand its routes as a way of responding to international competition. Persistently keen on expanding its presence across Africa, Kenya Airways (KQ) launched a new direct flight between Nairobi and Kilimanjaro, in northern Tanzania and Eldoret in the Rift valley. A new route to Beirut in Lebanon is also in the pipeline in addition to the recently launched direct flight to New Delhi in India.

In addition, Kenya Airways planned to launch Jambo Jet, a low-cost subsidiary to handle regional flight operations, as competition brewed among budget operators in the industry for control of African routes aimed at strengthening KQ competitive edge which marks a reverse strategy after the Kenyan national carrier absorbed its then low-priced unit Flamingo Airlines to group operations in 2004. The launch of Jambo Jet would be part of a global strategy synonymous with international carriers, as the trend of establishing subsidiaries to handle local routes, freeing executives with the task of more complicated

international travel, seems a potent way of optimizing operations and cutting costs accruing from procurement, staff productivity and fuel expenses.

On fleet modernization and growth, the interviewees pointed out that KQ was currently implementing its 10 year expansion strategy that entailed buying nine Boeing 787-800s Dreamliners, one Boeing 777-300ER and 10 Embraer-190 aircraft. The B787 and B777-300ER deliveries would be expected to start during the first quarter of 2014 and the fourth quarter in 2014. The new deliveries under finance agreement would help increase capacity and allow for replacement of old aircrafts. The Dreamliners would replace the 767s while the E190s would be used for capacity expansion on the African routes. KQ planned to grow its fleet from 34 aircraft to 119 by 2021, and increase its destinations from 57 to 115 during the same period. KQ's expansion plan depends on additional space at the airport and the completion of the upcoming Greenfield terminal for its operations.

#### **4.7 Effectiveness of Adopted Strategies**

The study sought to determine the whether the response strategies adopted by the Company was effective and how it could be improved. From the results of interview, the interviewees noted that route expansion was effective as a strategy. Kenya Airways' new local and international routes had lifted passenger numbers by 15.4 per cent. Africa routes brought in 49 per cent of the airline's revenues, recorded the highest increase, posting a 26 per cent passenger growth in Kenya and a 14.1 per cent rose in other routes on the continent. The airline's profit grew to Sh3.5 billion in the year to March compared

to Sh2 billion in a similar period last year and further growth in profits was expected due to the expansion plan.

In addition, the interviewees indicated that they could not rate the low cost carrier as a strategy because it was still in the pipeline and yet to start. Fleet modernization and growth could not also be rated since it was ongoing and the benefit was yet to be realized.

#### **4.8 KQ New Routes**

The Company had opened various new routes in its bid to consolidate its international market share. The respondents were asked to name the new routes opened by KQ within the past one year. This included direct flight to New Delhi, Kilimanjaro in Northern Tanzania and Eldoret in Rift Valley. The company also increased its flights to Mumbai to cater for the demand of customers traveling between India and Africa.

#### **4.9 Purchase of New Fleet of Aero planes in Market Consolidation**

On whether the strategy of purchasing new fleet of aero planes by KQ had helped the company in consolidating the market, the study established that the increasing number of aircraft in KQ had helped the airline consolidate its presence on Africa continent where it flew 45 destinations. The airline had expanded its destination in Africa while increasing frequencies on existing routes. It had allowed the airline to fly on short to medium range routes with lower fuel costs.

#### **4.10 Strategies the Company Employed To Consolidate International Market Share**

The study sought to establish other strategies that the airline employed to consolidate its international market share. The strategies indicated by the respondents included:



championing JKIA expansion project and modernization which would boost additional space at the airport and the completion of the upcoming Greenfield terminal for its operations. This would ensure the current airport overstretched and would be able to handle more passengers due increase aircraft landing frequencies.

Kenya Airways rolled out SkyPriority Service in Partnership with SkyTeam Alliance where it's currently a full member and the only African Airline Skyteam member. This service offers the eligible customers valuable benefits such as priority access to facilities and services such as check in, boarding and baggage handling as well as immigration control at various airports. The customers would be able to enjoy convenience and reduced time during pre, transfer and post flight.

In addition, the airline embarked on a training program for pilots to meet staff needs due to an extremely high demand for pilots in the industry and when the airline was exploring avenues of increasing frequencies in and outside the continent. Co-operative Bank partnered with Kenya Airways to finance a pilots training programme as network growth exerts more pressure on the airline. The national carrier and largest local airline was keen on training Ab Initio pilots and had in the past funded the training. The trainee pilots enrolled for a 27-month training course at a leading aviation school in South Africa. National flag carrier and Pride of Africa Kenya Airways moved to boost its aircraft piloting crew capacity in a race to increase the number of first officers and captains for the growing fleet. The airline shortlisted and sent an additional eight Ab initio pilots for training in South Africa. Ab initio is pilot training for those who have had no previous experience. This brings to 45 the total number of Ab Initio recruits currently under training in South Africa. The airline was focusing on increasing the number pilots in

tandem with the increase and renewal of its current fleet as well as to meet the demands of the larger route network that Kenya airways was developing.

The interviewees also indicated that the airline had decided on outsourcing its services in a move to put a lid on rising staff costs and shield itself against labor unrest. Some of the services outsourced included: catering, air cabin crew staff function and other operations.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presented the summary of key data findings, conclusion drawn from the findings highlighted and recommendation. The conclusions and recommendations were drawn are in pursuit of addressing the research objective which was to determine how Kenya Airways responds to the challenges of global business arena.

#### **5.2 Summary of the Findings**

The targeted a total of 7 respondents out of which 6 participated in the interview giving a response rate of 86%. The KQ airline reviewed its strategic plan after every 10 years. Some of the Kenya Airways competitors included British airways, South African Airways, Ethiopian Airlines and Egypt Air. Kenya Airways encountered the challenges of pricing, route connectivity and poor service quality.

KQ had circumvented various solutions to ensure that the challenges were minimized thus remaining profitable. On pricing, the institution restructured its costs and also provided special offers for its customers in order to remain competitive and gain a competitive edge over the others. Regarding the routes connectivity, KQ management set up the strategic departure times and frequencies where customers were allowed to check flight timetable online and also book their flights online which was convenient to the customers with busy schedules. In order for the KQ to enhance its service quality and satisfy its customers effectively, the company had embarked on training its staff through

refresher courses and other training and development programs on various aspects of the company to increase employee competency.

In responding to international competition, the airline decided to expand its routes as a way of responding to international competition. Kenya Airways (KQ) launched a new direct flight between Nairobi and Kilimanjaro, in northern Tanzania and Eldoret in the Rift valley.

Kenya Airways planned to launch Jambo Jet, a low-cost subsidiary to handle regional flight operations subsidiaries to handle local routes. On fleet modernization and growth, KQ was currently implementing its 10 year expansion strategy that entailed buying nine Boeing 787-800s Dreamliners, one Boeing 777-300ER and 10 Embraer-190 aircraft. The B787 and B777-300ER deliveries would be expected to start during the first quarter of 2014 and the fourth quarter in 2014. The new deliveries under finance agreement would help increase capacity and allow for replacement of old aircrafts. The Dreamliners would replace the 767s while the E190s would be used for capacity expansion on the African routes. KQ planned to grow its fleet from 34 aircraft to 119 by 2021, and increase its destinations from 57 to 115 during the same period.

The route expansion was effective as a strategy as it had lifted passenger numbers by 15.4 per cent. Africa routes brought in 49 per cent of the airline's revenues, recorded the highest increase, posting a 26 per cent passenger growth in Kenya and a 14.1 per cent rose in other routes on the continent. The airline's profit grew to Sh3.5 billion in the year to March compared to Sh2 billion in a similar period last year and further growth in profits was expected due to the expansion plan.

In addition, the interviewees indicated that they could not rate the low cost carrier as a strategy because it was still in the pipeline and yet to start. Fleet modernization and growth could not also be rated since it was ongoing and the benefit was yet to be realized.

The new routes opened by KQ within the past one year included direct flight to New Delhi, Kilimanjaro in Northern Tanzania and Eldoret in Rift Valley. The purchasing new fleet of aero planes by KQ had helped the airline consolidate its presence on Africa continent where it flew 45 destinations. The airline had expanded its destination in Africa while increasing frequencies on existing routes. It had allowed the airline to fly on short to medium range routes with lower fuel costs.

The other strategies that the airline employed to consolidate its international market share included: championing JKIA expansion project and modernization which would boost additional space at the airport and the completion of the upcoming Greenfield terminal for its operations. Kenya Airways rolled out SkyPriority Service in Partnership with SkyTeam Alliance where it's currently a full member and the only African Airline Skyteam member that offers the eligible customers valuable benefits such as priority access to facilities and services such as check in, boarding and baggage handling as well as immigration control at various airports. The airline embarked on a training program for pilots to meet staff needs due to an extremely high demand for pilots in the industry and when the airline was exploring avenues of increasing frequencies in and outside the continent. The airline also decided on outsourcing its services in a move to put a lid on rising staff costs and shield itself against labor unrest. Some of the services outsourced included: catering, air cabin crew staff function and other operations.

### **5.3 Conclusions**

From the findings, the study concludes that KQ reviews its strategic plan after 10 years. Kenya Airways competitors include British airways, South African Airways, Ethiopian Airlines and Egypt Air and face the challenges of pricing, route connectivity and poor service quality.

The airline responded to the challenges by expanding its routes through opening of new routes in Africa and India, plans to launch Jambo Jet, a low-cost subsidiary to handle regional flight operations subsidiaries and local routes. KQ is currently implementing its 10 year expansion strategy that entails buying nine Boeing 787-800s Dreamliners, one Boeing 777-300ER and. The B787 and B777-300ER deliveries are expected to start during the first quarter of 2014 and the fourth quarter in 2014. The airline has 10 Embraer-190 aircraft. KQ plans to grow its fleet from 34 aircraft to 119 by 2021, and increase its destinations from 57 to 115 during the same period. The route expansion strategy is effective as it has increased airline revenue.

The new routes opened by KQ within the past one year include direct flight to New Delhi, Kilimanjaro in Northern Tanzania and Eldoret in Rift Valley. The other strategies that the airline employed to consolidate its international market share include: championing JKIA expansion project and modernization, KQ's rolling out SkyPriority Service in Partnership with SkyTeam Alliance, training program for pilots to meet staff needs and increase competency and outsourcing of its such as catering, air cabin crew staff function and other operations.

#### **5.4 Recommendations**

From the findings and conclusions, the study recommends that critical success for KQ strategic plan is ensuring that invested capital is utilized to the maximum. The airline should increase flexibility by adopting more sophisticated fleet assignment optimization models to match the right-sized aircraft to the stochastic and dynamic booking patterns of different routes. Ensure improved capacity management strategies to optimize revenue and load factors, maximize aircraft utilization and make sure the most productive use on of airline's largest capital investment remains paramount.

The airline should also adopt differential pricing techniques that would respond to the need for maximizing revenues to cover higher energy costs. The airline must redefine the value proposition to consumers in a way that provides services and options desired by different demand segment at price levels that can generate revenues to cover costs and ensure profitability. The opportunities for innovation for service delivery should include airport experience for passengers including elements of security processing and board control.

#### **5.5 Limitations of the Study**

Since it was a case study focusing on one Institution the data gathered might differ from other airlines. This is because different institutions adopt different ways to responds to the challenges of global business arena. The study however, constructed an effective research instrument that sought to elicit general and specific information on how airlines respond to challenges of global competition.

The study faced both time and financial limitations. The duration that the study was to be conducted was limited hence exhaustive and extremely comprehensive research could not be carried on how airlines respond to the challenges of global business arena. The study, however, minimized these by conducting the interview at the Institution's headquarter since it was where strategies are made and rolled out to other office that operate on the blue print.

### **5.6 Area for Further Research**

The researcher recommends that a similar study be done on the airlines in Kenya for the purposes of benchmarking since the business environment has become very volatile following the high level of globalization effects and market liberalization. Organizations are forced to invent new ways of dealing with their current problems in order to survive the high competition. This would enable generalization of study findings.

### **5.7 Implications on Policy, Theory and Practice**

The management of Kenya Airways and other airline companies should use the study to benefit the organization by formulating response strategies to counter the challenges of ever changing business environment following increased globalization.

The government and policy makers should get insight from the study in formulating policies that that would lead to markets liberalization hence move in the right direction since reform is necessary to support the long-term health of the industry.



The researchers and academic community should use this study as a stepping stone for further studies. The students and academics should use this study as a reference and a basis for discussions on the strategic response to international competition.

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## **APPENDICES**

### **Appendix I: Data Collection Authorization Letter**

## **Appendix II: Interview Guide**

### **OPENING OF NEW ROUTES BY KENYA AIRWAYS AS STRATEGIC RESPONSE TO INTERNATIONAL COMPETITION**

#### **Section A: New routes**

1. How Frequent does Kenya Airways review their strategic Plan?
2. Kenya Airways has been facing stiff competition on international market. Kindly name a few competitors of Kenya Airways.
3. What challenges have these competitors caused to Kenya Airways?
4. How has the Company responded to these challenges?
5. Kindly name the strategies employed by the company to respond to international competition
6. Are these response strategies adopted by the Company effective? How can they be improved?
7. The Company has opened various new routes in its bid to consolidate its international market share. Kindly name the new routes opened within the past one year.
8. The Company has also purchased new fleet of aero planes, has this strategy helped the company in consolidating the market?
9. What other strategies has the Company employed to consolidate its international market share?