

**STRATEGIC RESPONSES OF AIRLINES OPERATING IN KENYA
IN
THE FACE OF CHANGING ENVIRONMENTAL CONDITIONS**

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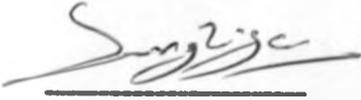
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**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
DEGREE OF MASTER OF BUSINESS ADMINISTRATION.
FACULTY OF COMMERCE
UNIVERSITY OF NAIROBI.**

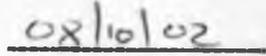
2002

DECLARATION

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



Solomon W. Thiga

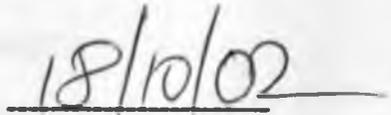


Date

This project has been submitted for examination with my approval as a university supervisor.



Prof. Evans Aosa



Date

Chairman,

Department of Business Administration,

University of Nairobi.

DEDICATION

This project work is dedicated to:

My Father: *Eng. George R.W. Thiga*

Thankyou Sir for emphasizing the value of education.

My Mother: *Mrs. Loice N. Thiga*

Thankyou Mum for bringing me up right.

Truly..."Love never fails."

I LOVE YOU BOTH.

MAY THE LORD CONTINUE TO BLESS YOU MIGHTILY!

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Last but not least, I thank The Lord Jesus Christ with whom all things are possible.

ABSTRACT

In business, firms must utilize strategy - be it explicit or implicit, in order to survive especially, in an ever-changing environment. In today's global village, the levels and intensity of competition faced by firms can be extremely high. This research endeavored to establish the strategic responses being utilized in the airline industry, which has of late become both increasingly global and has faced rather turbulent environmental conditions.

While the study set out to conduct a census survey of all the regional and international airlines represented at the country's leading airport, it had to make do with a sample due to reasons of accessibility. The researcher collected data through the administration of a structured questionnaire. 8 out of the targeted population of 16 airlines participated in the study. The study established that airlines had been undergoing a period of considerable environmental turbulence- indeed, even the initial target population of 18 airlines decreased to the above mentioned 16 during the course of data collection due to the exit of two airlines.

The turbulence level in the environment in which airlines operate increased to an unpredictable level due to the surprising events of 11th September 2001. Apart from the unfortunate incidents on the above day, airlines operating in Kenya had been experiencing challenging environmental conditions.

The study documented the following changes in the environment in which airlines operate:

1. Globalization of world markets
2. World-wide economic recession
3. Increased competition due to strategic alliances/partnerships
4. Increased operating costs

Further, from the research study, it became evident that the major challenge facing airlines was not only how to maintain or improve profitability but even how to survive in an increasingly unattractive industry. Strategic responses by airlines were therefore geared toward keeping costs low to increase profit margins and improvement of product/service offering to increase airline attractiveness hence turnover.

The study documented the following key responses by airlines to changes in environmental conditions:

1. Expansion of networks through alliances
2. Shelving of unprofitable routes
3. Productivity improvements to cut costs
4. Continual improvement of services

The above environmental changes and responses are some of the study's key findings. Further, as airlines respond to environmental changes, there has been an

increased tendency toward the use of collaborative rather than competitive strategy; with one collaborating block of airlines competing against another.

1990's global air travel, as measured in passenger miles, went into a decline in 1990. The above is significant because prior to the above decline, the industry had experienced phenomenal growth that had led to the formation of approximately 200 airlines around the world, utilizing approximately 9000 jet aircraft – figures that have been in steady decline hence. The airline industry, which is the focus of the research, has an inherently global nature. A global industry is one in which competition within the industry crosses national borders (Peterson & Robinson, 1999).

The above decline was in the crisis attributed to the gulf war and the ensuing global economic downturn along with a subsequent rise in world oil prices (The Economist, March 1992). Locally, the above mentioned decline also manifested and ultimately culminated with the exit of previously well established players such as Air France, Lufthansa, Alitalia, Olympic, SAS, and Aeroflot – just to name a few, from the market place. Indeed, the 1990's witnessed significant changes on a global scale, in the socio-political, economic, and technological environments in which business operates – collectively referred to as the remote environment. The world economy began to transition with a shift in the status quo.

CHAPTER 1: INTRODUCTION

1.1 Background

For the first time since the introduction of commercial jet travel in the 1960's, global air travel, as measured in passenger miles, went into a decline in 1990. The above is significant because prior to the above decline, the industry had experienced phenomenal growth that had led to the formation of approximately 800 airlines around the world, utilizing approximately 9000 jet aircraft – figures that have been in steady decline hence. The airline industry, which is the focus of this research, has an inherently global nature. A global industry is one in which competition within the industry crosses national borders (Pearce & Robinson, 1999).

The above decline was in the main attributed to the gulf war and the ensuing global recession brought about by a subsequent rise in world oil prices (The Economist, March 1993). Locally, the above mentioned decline also manifested and ultimately culminated with the exit of previously well established players such as Air France, Lufthansa, Alitalia, Olympic, SAS, and Aeroflot - just to name a few, from the market place. Indeed, the 1990's witnessed significant changes on a global scale, in the socio-political, economic, and technological environments in which business operates -collectively referred to as the remote environment. The world economy began to transform with a shift in the status quo.

Schutte (1994) noted that the world economy has been undergoing an exciting restructuring process – opening up to a market driven economy, which has consequences for the global competitiveness of concerned companies.

Globalization and liberalization, which are terminology that have often been associated with the above changes, gave businesses an opportunity to become truly global in their scope of operations. Doz & Hamel (1998) noted that globalization opened the race for the world as firms entered once closed markets and pursued untapped opportunities. Political reforms gave business an opportunity to operate in more stable environments as democratically elected governments took the helm. Great strides were also made in technology such as the creation of the Internet with its World Wide Web and E-mail, and video-conferencing-which often eliminates the need for business executives to travel abroad for meetings and conferences. Economic reforms in many countries liberalized economies and paved the way for increased industry competition both domestically and from abroad.

Given that the above remote environment is composed of a set of forces that originate beyond a single firm's and even an industry's operating situation, a firm's choice of direction and actions are therefore influenced by such external and often largely uncontrollable factors (Pearce & Robinson 1999). As pertains to the airline industry, such factors include the now infamous events of 11th September 2001, in which terrorists hijacked four American airliners. The foregoing events so adversely affected the industry that even airlines halfway

across the globe such as Swissair and Sabena were forced to declare bankruptcy due to the ensuing global slump in air travel. Environmental changes therefore demand a review of the internal conditions and capabilities of industry players in order match their firms' profiles with the new environment. The growth of international competition has resulted in industries that were once sheltered from strong competitive forces - such as the airline industry, turning into business battlefields.

This study was conducted to establish specific environmental changes that have impacted the airline industry and to document airlines' responses to such changes. The global nature of the industry suggests that environmental changes affecting airlines abroad would also have a bearing on both regional and international airlines represented in the Kenyan market. The researcher therefore utilized the country's leading international airport - Jomo Kenyatta International Airport (JKIA), as a reference point, and conducted the study on airlines operating there.

1.2 Definition of Terms Used

Strategy - Strategy has been defined in several ways. (Ansoff, 1965) defines it as a set of decision-making rules for guidance of organizational behavior. (Porter, 1998) describes strategy as the creation of a unique and valuable position, involving a different set of activities. The latter definition refers to a position different from that of competitors and therefore requires a firm to deliberately

choose to either perform activities differently or to perform different activities than those of rival firms. Porter suggests that a firm can outperform rivals only if it can establish a difference that it can preserve. The firm must either deliver greater value to customers or comparable value at a lower cost or do both.

Perhaps, for the purposes of this study, a more appropriate definition of strategy is that it is a means of solving a strategic problem, which is a mismatch between the internal characteristics of an organization and its external environment, to exploit opportunities existing in the external environment (Aosa, 1998). This definition possesses greater suitability in that recent strategic trends amongst airlines point more toward collaborative strategy rather than to the competitive strategy advocated by Porter.

Competitive advantage - this refers to the value a firm is able to create for its customers that exceeds the cost of creating the value (Porter 1998). Porter suggests three generic strategies or approaches to achieving competitive advantage: - Product differentiation, Cost Leadership and Focus.

Globalization - is a strategy of approaching worldwide markets with a standardized product (Pierce, Robinson, 1999). Porter (1980) suggests that globalization is triggered by distinct environmental factors such as the availability of increased economies of scale, declining national economic and social circumstances, and reduced government constraints. Global competition is therefore the battle that companies wage in international markets in order to achieve competitive advantage over one another.

Strategic alliance/Partnership - an agreement between two or more firms, involving the sharing of mutual complementary resources. Such agreements go beyond normal company to company dealings but fall short of mergers, acquisitions or full partnerships (Strickland and Thompson, 1993).

Code sharing - is where two or more airlines agree to use the same flight code for connecting services. It may form part of an alliance agreement or stand on its own.

1.3 Historical Overview of the Airline Industry

A historical overview of the industry indicates that a great number of the world's airlines, prior to the globalization and liberalization wave of the 1990s were state owned. Indeed many airlines - particularly in less developed countries, still have some degree of state ownership. This can probably be attributed to the colossal amount of capital required in setting up an airline. A single B747 "Jumbo Jet" costs US\$ 150 million at 1993 prices (The Economist June, 1993) – an amount far too steep for many a private investor to raise. Many airlines were therefore set up by their respective governments and viewed as an essential transportation medium -much in the same manner as national road, rail, telephone and other communication networks are. They served as "flag carriers" i.e. as a means of linking a nation's domestic economy with major foreign trade partners. Many nations therefore had their own national airlines.

Further, such flag carriers were for a considerable period sheltered from the effects of industry competition through government regulation, protection and subsidy, which accorded them undue advantage over other airlines (The Economist June, 1993). The forgoing had its genesis in 1944 when the United States government called an international convention in Chicago in order to establish worldwide rules for the development of commercial aviation - with the intention of arriving at a multinational trading agreement. Instead, countries opted to sign bilateral agreements amongst themselves. This resulted in an industry governed by hundreds of bilateral agreements which, in effect, ruled out the existence of any meaningful competition amongst airlines.

Bilateral agreements were essentially reciprocal agreements between nations and the medium through which landing rights were granted to airlines. National carriers got priority over other carriers to these rights thus guaranteeing them the best landing time slots. Governments through bilateral agreements were mandated to approve airfares charged by airlines on each route. This essentially meant that the less efficient of any two airlines plying a particular route determined the minimum fare that could be charged by either airline. This had an effect of keeping fares unnecessarily high.

Bilateralism also set proportions on the ratio of the total number of passengers that each airline could carry by setting limits on the number of flights airlines could operate.

Further, "pooling" agreements exercised in regions such as Europe, divided the revenues from each route thus preventing one nation's airline from earning considerably more than the other's. Pooling was finally outlawed from 1st Jan. 1993 (The Economist June 1993). Governments also awarded their airlines preferential treatment in various areas e.g. in the allocation of convenient landing slots i.e. departure/arrival times, exclusive use of airport facilities such as boarding gates and so forth which gave "Home" carriers an advantage over other airlines.

Government grants and subsidies were readily granted to flag carriers for capital expenditures such as fleet expansion thus affording them access to cheap capital.

"Cabotage" services were also forbidden - meaning that a foreign airline could not operate domestic flights in a country other than its own.

Further, bilateral agreements also prevented airlines from operating cross border services to a third country if the same was served by its national airline; e.g. British Airways would be prohibited from flying to Dares-salaam via Nairobi if Kenya's national airline - Kenya Airways - served the same route. This effectively meant that British Airways would have to operate two separate flights to the above cities if it intended to serve them both - an exercise that could prove to be rather expensive given the proximity of the two cities and their mutual distance from Britain.

As the world's GNP grew, demand for air travel increased, and it was no longer the preserve of the privileged few. Accordingly, the air travel industry grew

considerably – by over 400% between 1970 and 1990 (The Economist March, 1993.) Competition therefore also increased considerably as the choice of airlines available to passengers increased. Eventually, governments began struggling to keep less competitive, inefficient airlines afloat (which they had previously done), principally through state subsidies. This eventually led to the decision to privatize them either partially or fully. Others, such as the giant PAN-AM, T.W.A. and British Caledonian were wound up altogether. In the United States alone, US carriers made a loss of US\$700 billion during the 1990-93 period. Similarly, in 1992, European carriers lost US\$ 700 million (The Economist December 1992). The above losses were mainly attributable to fare cuts and escalating price wars amongst competitors in a bid to attract more customers.

Further, airlines faced other problems associated with the globalization and liberalization wave of the 1990's. As businesses the world over strove to become more competitive through restructuring and cost cutting, many were no longer willing to pay first or business class fares for their executives and managers who instead found themselves in the economy section of the plane. Therefore, airlines with the traditional three classes (first, business and economy) cabin configuration found that their aircraft were flying half empty, consequently leading to huge losses.

The above has added significance because airlines have traditionally depended on their high yield passengers to make a profit. Such passengers were mainly

"expense account" business travelers flying either first or business class.

According to the ABC World Airways Guide, the above passengers have in the past, consisted of 1/5 of total passengers, yet have accounted for 2/3 of ticket sales revenue. A structural shift in passengers however occurred in the 1990's due to cost cutting by businesses as mentioned above. In preparation for this project, information obtained by the researcher suggested that many airlines had in fact discontinued their first class service, as demand may no longer have justified it. While passenger numbers started to grow again in 1993, after the 1990 slump, most of the new passengers were either tourists or leisure travelers - who tend to be highly price sensitive. Airlines must therefore devise ways and means of attracting sufficient passengers in order to make up for the low yields – a seemingly daunting task in an increasingly competitive market characterized by deregulation.

Deregulation in the airline industry, beginning with that of the US domestic market in 1978 opened new markets and paved the way for increased competition. As deregulation continues the world over e.g. Europe in 1993, COMESA market in 2000, competition amongst airlines is becoming increasingly global. The strategic challenge for many airlines therefore lies in how to achieve competitive advantage in the emerging global arena. The passenger slump of 1990, coupled with diminishing yields/passenger wiped out virtually all airline profits for those fortunate enough to have still been making a profit, let alone those receiving state

subsidies for survival. Airlines were therefore cash strapped and in no financial position to purchase new aircraft requisite for the globalization of operations.

1.3.1 Recent Industry Trends

A firm secures its survival through sustained growth and profitability (Pierce and Robinson, 1999). In the 1990s, as governments increasingly divested from business through privatization, airlines that traditionally functioned as national flag carriers by virtue of their state ownership were being either partially or fully privatized. As private entities, their survival now depends on their ability to be profitable, as they no longer qualify for the state subsidies that many were accustomed to receiving to keep afloat. As such, previously loss-making airlines must quickly formulate and implement appropriate strategies to become profitable world-class airlines. Further, as deregulation of the airline industry continues in fits and stops, airlines are for the first time facing the full brunt of competition.

The issue of growth presents both opportunities and threats for airlines. Opportunities in that “new” markets are emerging through the signing of open skies agreements between nations and economic trading blocks. Airlines must therefore formulate appropriate strategies to quickly tap into such markets in order to reap the potential benefits. Further, given that tourist and leisure travelers constitute the majority of today's airline passengers, it is expected that these passengers are more likely to be attracted to airlines that offer low long distance

fares with the added convenience of interconnecting flights. Airlines with a global network will therefore be more likely better placed to provide both, as they would be able to pass savings realized through economies of scale down to the customer. In consideration of the above, capacity for expansion becomes the single most significant factor vis-à-vis the limited resource base available for the rapid creation of a global network, coupled with the issue of how to deal with the contending force of rivalry from well-established competitors.

Threats to airlines emerge from the fact that protection of traditional markets, previously catered for by regulation and bilateralism is quickly dwindling and the threat of entry by new competitors is fast becoming an additional contending force to deal with. Profitability over the long term is now, more than ever, a key demand on airline management by new shareholders as airlines privatize. Again, formulation of appropriate strategy is therefore required.

In light of the above issues, today's airline must formulate appropriate strategies to strengthen its competitive position and become a major player in a newly emerging global arena. Whilst numerous researches have been done documenting the effects of environmental change on industry competition e.g. Shimba 1993, Bett 1995, Kombo 1997 and Chune 1998, these studies were mainly limited to a single aspect of environmental change namely: - industry liberalization. This study however broadened the scope and investigated major aspects of environmental change affecting the airline industry - an industry that is markedly distinct due to

its inherent international and global nature. Further, the study sought to establish the various responses that airlines have adopted to the opportunities, challenges and threats arising thereof.

1.4 Statement of the Problem

The airline industry has been undergoing a period of considerable environmental turbulence. Government privatization of airlines, liberalization of markets, escalating industry deregulation, worldwide economic recession, and the recent terrorist attack on America are just a few of the factors that have contributed to the turbulence. Shaw (1990) noted that the world airline industry at the end of the 1980s presents classic symptoms of an industry in the middle of a process of change. After decades of protectionism by their respective governments, more airlines are now being exposed to the pressures of the market place. Chaudhary (1993) noted that the world recession, hike in fuel prices and economic problems of most countries have hit the industry badly. Hofer & Schendel (1978) observed that for firms to be effective and successful, they should respond appropriately to changes that occur in their respective environments. Airlines operating in Kenya, being organizations like any other, are environmentally dependent. Environmental changes must therefore be creating pressure for change in the internal dynamics of these airlines. It is on the above considerations that this study intended to answer the following two pertinent questions. What are the recent environmental changes

affecting airlines operating in the country? Secondly, what strategic responses are airlines using to counter these environmental changes?

1.5 Objectives of the Study

The objectives of this study were:

- (i) To identify environmental changes that are affecting airlines represented at Jomo Kenyatta International Airport (JKIA), Nairobi.
- (ii) To establish how airlines represented at JKIA, Nairobi are responding to changes in the environment.

1.6 Importance of the Study

The study will be of significance to the following:

Management of Airlines Operating at JKIA, Nairobi.

Kenya, especially its capital - Nairobi is strategically located both in the midst of Africa and the globe. This strategic location gives her the potential of becoming a major hub in a global airline system. This study should therefore be able to give insight into both the extent to which the opportunity for globalization has been exploited at JKIA, which is Kenya's busiest international airport, and will therefore form a basis for further development of airline strategy.

The Government of Kenya and Airport Authorities.

This study will give an opportunity for the concerned authorities to plan appropriately for the airport's development based on current and expected future usage by airlines operating at the airport.

Airport Users and Other Interested Parties.

This study will be beneficial to all groups of travelers, importers, and exporters as well as members of the tourism sector such as tour operators and so forth, which are closely associated with the airline industry.

Academicians

This study will be relevant as an addition to knowledge and hopefully stimulate further research in the future on the same or associated topics.

1.7 Outline of the Study Report

Chapter one contains the introduction and provides a brief background of the research topic, an overview of the airline industry, definition of key terms, a statement of the research question, the objectives of the study and the importance of the study.

Chapter two contains a review of the available literature on the subject matter including theoretical foundations of strategic responses and the relationship between firms and the environment.

Chapter three contains details about the research methodology - comprising the population and sample of interest, the data collection instrument and process together with the data analysis techniques.

Chapter four contains information on the data analysis, findings and relevant discussions of the same.

Chapter five contains a summary of the research findings, conclusions of the study, limitations of the study and recommendations for further research.

CHAPTER 2: LITERATURE REVIEW

2.1 Foundations for Competitive Strategy and Strategic Responses

As noted in chapter 1, changes in environmental conditions shape a firm's opportunities, challenges and threats. Firms often respond to such environmental changes through strategic responses. Strategic responses can be defined as a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives (Pearce and Robinson, 1991). They therefore involve changes in a firm's strategic behavior to assure success in the transforming future environment (Ansoff, 1990). They are often due to changes in the competitive position a firm occupies in the competitive industry (Porter, 1980). Accordingly, Porter (1980) suggests that in selecting a strategic response, a firm can choose, depending on its internal capability, between three generic competitive strategies namely: - Cost Leadership, Differentiation and Focus.

Cost leadership requires a firm to become the low cost producer in its industry. To achieve this, a firm must exploit all sources of competitive advantage. By pursuing Cost leadership, a firm seeks to achieve maximum operational efficiency through cost management. Similarly, through cost leadership a firm reduces costs thereby enhancing its performance Porter (1980). Current trends in the airline industry have been geared toward pursuing this form of competitive advantage. However, Hofer and Schendel (1978) observed that organizations depend much more for their long run success and survival on improving effectiveness rather than on

improvements in efficiency. This appears to be the case in point for many airlines as they endeavor to build networks covering only the most profitable routes.

During this study, the researcher established that many European airlines have opted out of the Kenyan market for more profitable longer haul routes such as South Africa, North America and Far Eastern routes. Such routes provide greater yields per passenger mile covered. A cost leader can however not ignore issues of differentiation; the quality of its product or service must be perceived as comparable to competitors' offerings hence acceptable to buyers otherwise massive discounts would have to be offered which would in turn nullify the benefits of low cost production.

Differentiation involves the creation of a unique product or service, different from competitors' offerings. It calls for a firm to be unique in its industry along some dimensions that are widely valued by buyers. The firm achieves this by selecting one or more attributes that buyers in an industry perceive as important and uniquely positioning itself to meet those needs, therefore enabling the firm to command a premium price for its product that exceeds the cost of being unique.

Porter (1980) suggests that through differentiation, a firm is able to increase revenues thereby enhancing its performance. Available literature indicated that many airlines have attempted this approach to competition with limited success.

(Chaudhary, 1993) noted that in airlines, the services are highly routine and can be easily copied from one airline to another. Airline attempts at differentiation have

included "Frequent Flier" programs - that have now become an industry norm, wider seats, more legroom, extra baggage allowance, in-flight amenities such as telephones, personalized entertainment, office facilities and so forth. Indeed, many such innovations have been copied as airlines endeavor to establish "World Class" service levels. "Many passengers now conclude that the only difference between airlines is the price you pay: they all use the same equipment, serve similar food and take you to the same places." (The Economist, June 1993).

Focus strategy is essentially a derivative of the above two strategies in that a firm can opt for either cost focus or differentiation focus. It however requires the firm to focus on specific market segments rather than on a market wide approach to competition. The firm then endeavors to carve out a niche for itself in that market segment.

2.2 Strategic Alliances/Partnerships

Deregulation, privatization and the opening up of markets to global competitors pose a threat to local competitors whose traditional protections are fast evaporating and present new opportunities for global firms. Among the strategic options available to airlines as they seek to gain both competitive advantage and exploit overseas market opportunities are strategic alliances/partnerships, mergers and acquisitions. Strategic alliances involve collaborative agreements between two or more firms, which enable them to implement planned strategy. Strickland and

Thompson (1993) note that strategic alliances are cooperative agreements between firms that go beyond normal company to company dealings, but fall short of mergers, acquisitions or full partnerships. Doz and Hamel (1998) describe an alliance as a close collaborative relationship between two or more firms with the intent of accomplishing mutually compatible goals that would be difficult to accomplish alone. Shollei (1999) states that an alliance is a partnership between two or more firms, which involves the sharing of complementary resources for their mutual benefit. According to Barney (1997), alliances can be either symmetric or asymmetric depending on whether the firms' interests are similar or varied respectively or may constitute a mixture of both.

2.2.1 Rationale for Strategic Alliances/Partnerships

Doz and Hamel (1998) note that strategic partnerships have become central to competitive success in fast changing global markets. They are a logical and timely response to intense and rapid changes in economic activity, technology and globalization. They bridge borders and continents and have now become the cornerstone of global competitiveness. Alliances make it possible to by-pass slow and costly efforts to build one's capabilities and to access new opportunities. Lorange and Roos (1999) note that increasing internalization with tightened competitive pressure stemming from global scale and/or scope advantages create a need to team up with partners to ameliorate resource shortages, gain time and so forth. Further, the emergence of new competitors in traditional markets necessities

the need to reposition oneself proactively. There is therefore a need to build strong alliance networks, not only as a way to rapidly be in the right position to generate business but also as a defense. Furthermore, despite internationalization, there is a need to stay strong in national markets and adapt to local needs/demands, hence the need for a local partner.

According to Hassey (1994), the viability of an alliance depends on the market's potential to support it. Possible reactions of key competitors should first be taken into consideration. Further, other strategic concerns of the partners should not be adversely affected. In order for an alliance to be successful, a strategic match must exist whereby objectives of each partner are clearly and honestly stated. These objectives should be acceptable to all parties. Further, the alliance should benefit all concerned and complement each other's efforts thereby resulting in a positive, symbiotic relationship, thus leading to the creation of synergy, with the ultimate aim of improving the competitive position of all firms concerned.

2.2.2 Alliances and the Airline Industry

Alliances enable airlines to achieve economies of scale in respect of operational activities such as joint aircraft and spare parts purchasing (thus allowing larger discounts from manufacturers), joint aircraft maintenance (sharing of facilities) and so forth. Strategic alliances also facilitate the institution of joint pricing and marketing initiatives as well as the sharing of ground resources such as check-in

facilities, booking offices, and even personnel including pilots. In a nutshell, strategic alliances enable airlines to pool their competencies and function as a larger and more powerful entity vis-à-vis their bargaining power with suppliers.

2.2.3 Code Sharing

Code sharing consists of an agreement between two or more airlines but may fall short of an alliance. It works as follows: Airlines and travel agents use a computer reservation system (CRS) when booking customers on flights. The CRS displays all available flight combinations leading to a particular destination; flights that share the same flight code e.g. LH 531 (Lufthansa flight number 531) are displayed first on the CRS Screen creating the impression that the flight to that destination is a direct (non-stop) service. The booking agent would therefore opt to book passengers on such a flight with the intention of facilitating ease of travel, while in reality, the flight may not be a non stop service and may even entail passengers changing planes to a code sharer's aircraft. While the ethics behind code sharing are debatable, it effectively expands the route network of the airlines involved by enabling them to serve destinations that they do not actually fly to.

2.3 Globalization

Globalization is a strategy of approaching worldwide markets with a standardized product (Pierce, Robinson, 1999). Porter (1980) suggests that globalization is triggered by distinct environmental factors such as the availability of increased

economies of scale, declining national economic and social circumstances, and reduced government constraints. Global competition is therefore the battle that companies wage in international markets in order to achieve competitive advantage. In the airline industry, the battle can however be very costly due to the massive capital outlay involved. Paradoxically, economies of scale are very essential to achieving success in this cutthroat industry as deregulation allows airlines to set their own fare-prices often resulting in price wars in competitive markets. The forgoing being the case, conventional wisdom dictates that the bigger the airline, the greater the competitive advantage attained through cost reduction and increased operational efficiency.

2.4 Nature and Importance of Environmental Conditions

Firms are environment dependent in that they obtain their inputs such as capital, raw materials, human resources from it and discharge their outputs in the form of products and services to it (Cole, 1990). External factors influence a firm's choice of direction and action. These factors constitute the external environment and can be categorized as the remote, industry and operating environments. The remote or external environment, with which this study was concerned, can be described as all conditions that affect a firm's strategic options but are typically beyond its control (Pearce and Robinson, 1991). Forces at work in the above environment are

dynamic and include natural, economic, political, technological and social factors (Kotler and Armstrong, 1990).

Changes in environmental conditions shape a firm's opportunities and challenges.

A new environment therefore necessitates the formulation of new strategy best suited to cope with the change. The combined measure of the changeability and predictability of the environment is known as environmental turbulence (Ansoff, 1990). Turbulent environments are characterized by complex, unfamiliar, rapid and unpredictable events. Aosa (1992) noted that environmental turbulence tended to pose challenges to management. Chune (1998) in his study on the food-manufacturing sector noted that changes in the business environment in recent years have had a profound influence on corporate behavior. Sheikh (2000) noted that the business environment in Kenya had changed drastically in the 1990's and that these changes have posed a serious strategic threat to existing firms.

The 1990's witnessed significant shifts in the environment. Hallmarks of these shifts include - globalization of the world's economy, deregulation of industries, liberalization of markets and privatization of businesses. Doz and Hamel (1998) note that deregulation, privatization and the opening up of markets to global competitors pose a threat to local competitors whose traditional protections are fast evaporating and present new opportunities for global firms.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Population

Given the global nature of the airline industry and the sizable number of international airlines represented at the Jomo Kenyatta International Airport (J.K.I.A) Nairobi, the same served as the selection venue for the study population.

The population consisted of all the regional and international airlines operating at J.K.I.A Nairobi save for Kenya Airways which is in a separate category by virtue of being Kenya's national airline. The target population therefore comprised of 18 carriers at the outset of data collection process but reduced to 16 during the study due to the exit of two airlines namely the Belgian carrier Sabena and Cameroon airlines. A listing of the physical office location of each airline was obtained from the Kenya Airports Authority, which manages the airport.

3.2 Sample Design

Since the population of interest was not considered too large, it was decided that no sampling would be done and instead the entire population was to be studied. However only 8 out of the 16 airlines agreed to participate in the study constituting a sample size of 50% of the population.

3.3 Data Collection Method

Primary data was collected through the administration of 7 page-structured questionnaire consisting of both open-ended and closed-ended questions.

It comprised of 3 sections (see appendix).

Section “A” was designed to classify the airlines. Section “B” was designed to obtain information pertinent to environmental changes, while section “C” was designed to obtain answers regarding the strategic responses of airlines.

The questionnaire was administered personally by the researcher to the chief executive officer (or his representative) of each airline’s Kenyan operations. In the few cases where the foregoing was not possible, the mail method was employed-whereby the questionnaire was dropped and picked upon completion. Karemu (1993), Abekah (1996) and Kombo (1997) among others, had, for example, employed this method in similar studies.

3.4 Data Analysis

After the data collection, answers from the questionnaires were coded and edited. A database was created using SPSS. During coding, editing was done to check for errors and omissions. All completed questionnaires were checked for inconsistencies in response. Descriptive statistics were used to organize and summarize the data into percentages, frequencies and mean scores. The data has been presented herewith-using frequency tables and graphs. Classification of airlines was carried out based on factors such as type of ownership, aircraft fleet size and route network served.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter deals with the analysis of data and research findings. Data obtained from the study has been presented in the form of tables, charts and graphs, and is summarized into frequencies and percentages. From the targeted study population of 18 airlines represented at J.K.I.A., two airlines - Cameroon airlines and Belgian airline Seberna ceased operations during the course of the study with the former declaring bankruptcy. Of the remaining 16 airlines, 8 participated in the study, representing 50% of the study population. In light of the ensuing volatile and unpredictable environment, coupled with security concerns, the existence of apathy toward the study by airline management was evident. This obviously influenced the response rate achieved by the study.

4.2 Classification of Airlines

Table 1: Airline Year of Establishment

Period	Frequency	Percentage
Before 1960	4	50
1960 – 1970	2	25
1971 – 1980	1	12.5
1981 – 1990	-	-
After 1990	1	12.5
Total	8	100

From table 1 above, it can be observed that 50% of airlines captured in the study sample were established prior to the introduction of commercial jet travel in the 1960's. They are therefore well established industry players. Indeed, only 1 out of the 8 airlines studied, representing 12.5% of the sample was established after the

global environmental changes that so evidently impacted the industry in the 1990's. The same operates as a franchised regional carrier and was possibly established with the intent of filling some market niches created by the departure of a number of national airlines previously flying to regional destinations.

Similarly, from table 2 below, we see that 75% of the airlines have been flying to Kenya for over 20 years and have therefore being able to survive despite a drastic decline in passenger traffic in the form of tourists to the country.

Table 2: Commencement of Operations to Kenya

Year of Commencement	Frequency	Percent	Cumulative Percent
Before 1950	1	12.5	12.5
1951 – 1960	1	12.5	25
1961 – 1970	2	25	50
1971 – 1980	2	25	75
1981 – 1990	-	-	75
1991 – to-date	2	25	100

Table 3: Home Base of Airline

Home Base	Frequency	Percentage
Rest of Africa	3	37.5
Europe	2	25
Kenya	1	12.5
M. East	1	12.5
Asia	1	12.5
Total	8	100

Table 4: Ownership of Airline

Type of Share Holding	1% -25%	25% -50%	50% -75%	75%-100%	Total
State		1	1	4	6
Public		1		1	2
Foreign	1				1
Private		2		1	3

In Contrast to the global trend toward the privatization of state owned commercial concerns, 4 out of the 6 airlines that have some degree of state ownership were 100% state owned. This represents 50% of the study sample. The forgoing perhaps just goes to illustrate the colossal amounts of capital required for airline ownership. This argument is further supported by the fact that all the said airlines are carriers representing less developed countries where local investor capital for the successful floatation of state owned companies is often lacking. One of the industry's most successful carriers or 12.5% of the sample happens to be 100% publicly owned. One carrier was 100% privately owned while the remaining 25% of airlines had mixed forms of ownership.

Table 5: Classification by Size of Fleet

Airline Base	No. of Aircraft	Percent	Cumulative Percent
Africa	2	12.5	12.5
Africa	3	12.5	25
Africa	15	12.5	37.5
Asia	19	12.5	50
M. East	31	12.5	62.5
Africa	59	12.5	75
Europe	100	12.5	87.5
Europe	130+	12.5	100

When classified by fleet size, the data reveals that the constituent of airlines

represented at JKIA varies from small regional airlines to large “global carriers.”

Two of the largest airlines representing 25% of the sample were European carriers.

They also happen to be industry leaders in the current competitive strategy

campaign to offer global route networks. Two of the smallest airlines, with a fleet size of fewer than 5 aircraft, covered only regional networks.

Table 6: Classification by Frequency and Passenger Load.

Destination	Frequency (No. of Flights/Week)	Seating Capacity	Load Factor %	Total No. of Passengers/Week	Region Totals
Africa	2	139	42	117	
Africa	7	109	70	534	
Africa	7	147	55	566	
Africa	11	103	50	566	1783 (37.8%)
Asia	1	180	100	180	180 (3.9%)
Europe	7	126	85	750	
Europe	7	350	70	1715	2465 (52.3%)
M. East	2	201	70	281	281 (6.0%)

As shown in table 6 above, airlines operating to African (regional) destinations have the greatest frequency of flights at the JKIA, they operate 27 take off flights per week followed by those operating to European (intercontinental) destinations at 14 flights per week. Their load capacity is however lower due to the use of smaller jets. Their share of passenger load in the market therefore trails the Europeans at 37.8% verses 52.3%.

Table 7: Perception of Competition

Perception of Competition	Frequency	Percentage
Very Competitive	5	62.5
Competitive	3	37.5
Total	8	100

As shown in the above table, 62.5% of airlines surveyed indicated that they perceived the level of competition to be very high while the remaining 37.5% described it as less competitive. The foregoing may seem somehow ironic given that there has already been a substantial decrease in the number of players in the market from a high of about 35 in the late 80's and early 1990's to the current 16. Respondents however cited factors such as a decline in the level of passenger traffic to the region as well increased incidences of code sharing in the industry. This makes indirect flights less unattractive as they are now able to provide quick

and easy i.e. “Seamless” connections. The above is perhaps a pointer to the high incidence of departure of airlines from the Kenyan market.

4.3 Environmental Changes

Table 8: Change in Mission Statement

Change in Mission Statement	Frequency	Percentage
Yes	5	62.5
No	3	37.5
Total	8	100

The study sought to establish whether airlines had changed their mission statement within the last ten years in view of the dynamic environment they were facing. 62.5% of airlines indicated they had changed their mission statement. Reasons cited for the change centered on an increasing need for the creation of customer value through continuous improvement of service levels. Further, changes in mission statements were made to reflect the new global environment that airlines were facing. Stakeholder concerns were also incorporated into mission statements to reflect new strategic directions as a result of newly formed alliances and partnerships. Interestingly 3 out of 4 or 75% of the airlines that had not changed their mission statements were fully state owned perhaps indicating a lack of strategic thinking in state owned airlines, while the remaining airline was incorporated in the year 2000.

Table 9: Environmental Changes Affecting Airlines

Change Factor	Frequency	Percentage
Increased Operational Costs	5	62.5
Adverse Political Factors	4	50.0
World – Wide Economic Recession	3	37.5
Strategic Alliances	3	37.5
Industry Deregulation	2	25.0
Increased Competition	2	25.0

When asked what environmental changes had adversely affected their operations in recent years, 37.5% cited that the ongoing worldwide economic recession had decreased their passenger load factors considerably. An equal percentage cited that the increased incidence of strategic alliances and partnerships amongst airlines had boosted their competitors' competitive strengths. 50% stated that adverse political factors such as the Israeli/Palestinian conflict and wars in the horn of Africa region had impacted negatively on their operations. 62.5% stated that increased operational costs, coupled with fare cuts by competitors had reduced their profit margin considerably. 25% stated that industry deregulation had affected their operations while an equal number indicated that increased competition was a major factor.

In order to achieve the second objective of the study which was - "To establish how airlines represented at JKIA, Nairobi are responding to changes in the environment", the study sought to establish the extent to which environmental

changes had influenced airlines' utilization of each of Porter's (1980) 3 generic strategies. It must be appreciated that in practice, few companies direct all their efforts at achieving, exclusively, only one of Porter's suggested strategies of Cost leadership, Differentiation or Focus. More often than not, a mix of these strategies will often be in place. The study was therefore carried out with the foregoing in mind.

Table: 10 Influence of Environmental Changes on Cost Leadership Strategy

Extent	Frequency	Percentage
Low	1	12.5
Moderate	1	12.5
Significant	6	75.0
Total	8	100.0

Table 10 above shows the effect of environmental changes on the pursuit of cost leadership strategy by airlines. 75% of the sample population indicated that they had been significantly influenced by the changes to pursue cost leadership as a strategy. In many cases the pursuit of this strategy took shape in the joint sharing of resources through alliances and partnerships.

Table 11: Influence of Environmental Changes on Differentiation Strategy

Extent	Frequency	Percentage
Low	2	28.6
Moderate	2	28.6
Significant	3	42.8
Total	7	100.0

Out of the 7 airlines that responded to this section of the questionnaire, 42.8% indicated that their resolve to provide unique services had been significantly influenced by the changes. This points toward the adoption of Porter's differentiation strategy. 28.6% indicated that the changes had either a low or moderately influence on their objectives to provide unique services. Surprisingly though, only one airline, representing 12.5% of the sample population, operates a first class service on its operations to Kenya. This appropriately reflects both the nature of the majority of passengers -who are predominantly tourists and the waning demand for the service worldwide due to the continuous improvement of service levels on both business and economy classes in order to remain competitive.

Table 12: Influence of Environmental Changes on Focus Strategy

Extent	Frequency	Percentage
Low	2	25.0
Moderate	1	12.5
Significant	5	62.5
Total	8	100.0

62.5% of respondents stated that the changes had significantly influenced their decision to focus on specific market segments. 12.5% indicated that the changes had only moderately influenced their decision to focus on specific segments.

Table 13: Influence of Environmental Changes on Globalization Strategy of Airlines

Extent	Frequency	Percentage
Low	2	25.0
Moderate	2	25.0
Significant	4	50.0
Total	8	100.0

50% of respondents indicated that they had undertaken to expand their route network as a result of the changes they were experiencing. Such airlines stated that availing a comprehensive network to today's passenger is an important way of ensuring that customer loyalty is maintained as travel agents prefer to issue and customers prefer to use a single ticket per trip. Only airlines with global connections are able to facilitate the above. The study however established that a lot of such network expansion has been carried out through alliances with either partners or code sharers. 25% stated that the changes had not resulted in a network expansion program, while the remaining 25% expressed only a moderate development of the same.

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CHARTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1 Research Findings

5.1.1 Environmental Changes

The environment facing airlines has been characterized by turbulence especially following the infamous terrorist attacks of 11th September 2001 on America. Many airlines have in deed been fighting for their very survival and some have even declared bankruptcy in the face of a down turn in air passenger travel.

In general, airlines operating in Kenya incur high operating costs locally, which have had a negative effect on the profitability of the route. Such costs included the high prices charged for jet fuel, expensive charges levied by the Kenya Airports Authority on landing rights and high airport usage taxes.

Airlines also indicated that they had been greatly affected by adverse political factors. Further, one Middle Eastern carrier mentioned that security concerns restricted their ability to increase its flight frequency.

Further, the ongoing worldwide economic recession coupled with fare undercutting by competitors as a result of industry deregulation were also cited as major environmental changes.

In respect of the competitive environment, airlines were asked whether incidences of mergers and alliances in the industry had affected their operations in this market region. 25% stated that they were either significantly or at least moderately affected. 12.5% stated that they had little effect while surprisingly, 37.5% indicated that there was no effect at all. Given that many airlines now form part of

some type of alliance agreement, the initial threat that such agreements posed has however now been reduced.

5.1.2 Strategic Responses

All the airlines surveyed had, in one form or another, undertaken to restructure their operations in order to counter environmental changes.

However the blanket response by the airline industry to environmental changes has been the adoption of a co-operative rather than a competitive strategy.

The above has been manifested in the form of alliances and partnerships between airlines in a bid to quickly globalize their of route networks with minimal risk.

Through alliances, airlines are able to build their internal capabilities hence enabling them carry out successful strategy transformation in order to counter environmental changes. 62.5% of airlines operating in Kenya are part of a strategic alliance/partnership agreement. Further, the remaining 37.5% indicated that they were actively seeking to engage in the same. When asked about the objectives they hoped to achieve through alliances, the number one response given was the expansion of route networks. The forgoing is prerequisite to being able to achieve "World Class" airline status in the current global era. The following reasons were also cited: They help facilitate joint purchasing of services, fuel and aircraft thus enabling cost reduction and achievement of economies of scale. Further, alliances help nurture customer loyalty through brand pulling power. For example, secondary data obtained indicated that together with seven other leading

airlines, British airways, an already global airline in its own right, had recently formed an alliance christened “One World” which allows for a greater choice of destinations and flights using one flat rate, easy fare structure. The alliance members hope that “One World” will become a brand name in itself.

Another key strategic response by airlines to environmental changes has been route rationalization. By rationalization, airlines drop unprofitable routes but may still indirectly serve them through a code sharer to whom the route may still be profitable.

5.2 Conclusions

While the terrorist attacks of 11th September 2001 on America devastated the airline industry by reducing passenger numbers even further, all the airlines surveyed stated that they, and the industry at large, had been greatly affected by a world wide economic recession that had already began prior to the attacks. The general worldwide economic slowdown, which gained momentum after the slowdown of the Asian “tiger” economies, had already impacted the industry substantially. Newsweek (Dec’ 2001) stated that certain cultural traits such as Americans love of the new, Japan’s group think attitudes and European dependencies on a welfare system are frustrating the usual fixes for a lagging world economy.

When asked what challenges they were facing in their bid to improve their competitive position at J.K.I.A. airlines cited the following responses: Lack of

requisite capital and equipment to compete effectively, e.g. The operation of inefficient aircraft. Secondary data indicated that the forgoing has mainly been a preserve of African airlines. One such airline was in such poor overall shape that it had been unsuccessful in attracting a strategic partner to assist it in countering competition. Among the barriers to competition stated were allocations of inconvenient arrival/departure time slots in relation to competitors.

In view of a rather large number of exits from the market place previously, the study sought to establish the plans airlines had regarding Kenya as a destination. 62.5% indicated that they hoped to be able to increase their market presence. 25% hoped that they could be able to maintain their current market share, while 12.5% stated that the prevailing uncertainty in the environment since 11th September, 2001 had made them uncertain of their future in this market region.

5.3 Limitation of the Study

In many respects, the timing of the study could possibly not have been worse as it was inadvertently conducted immediately following the September 11th terrorist attacks. The fact that the attacks happened in America yet sent shock waves throughout the airline industry clearly revealed the industry's global nature. It may therefore be prudent to assume that given the magnitude of the repercussions of the above events, some of the responses to the research questionnaire, and hence the findings, may have been overtly influenced.

As already stated, while the researcher intended to carry out a census of all international airlines operating at J.K.I.A, the study had to make do with a sample population of only 50%. Greater participation would have, undoubtedly, enhanced the research findings; particularly given that the total population stood at only 16 airlines. Further, the environment at the time during which the research was carried out was extremely volatile and unpredictable. One airline manager, whose airline declined to participate stated that - "Things are changing too fast for us to give accurate responses to your questionnaire. "

5.4 Suggestion for Further Research

Subsequent to the September 11th terrorist attacks, current reports indicate that further restructuring by airlines particularly in the areas of operations and human resources is ongoing. As the level of global travel hit new lows, some "global" airlines particularly in Europe are looking to widen their domestic and regional operations in order to stabilize revenues. While this study was formulated to look at airline responses to environmental changes from a broad perspective, events occurring during and hitherto the above-mentioned events may render it worthwhile to carry out research specifically outlining the impact of the terrorist attacks on the airline industry.

Further, case studies on individual airline responses to changing competitive conditions may help provide further and additional insight on the subject matter.

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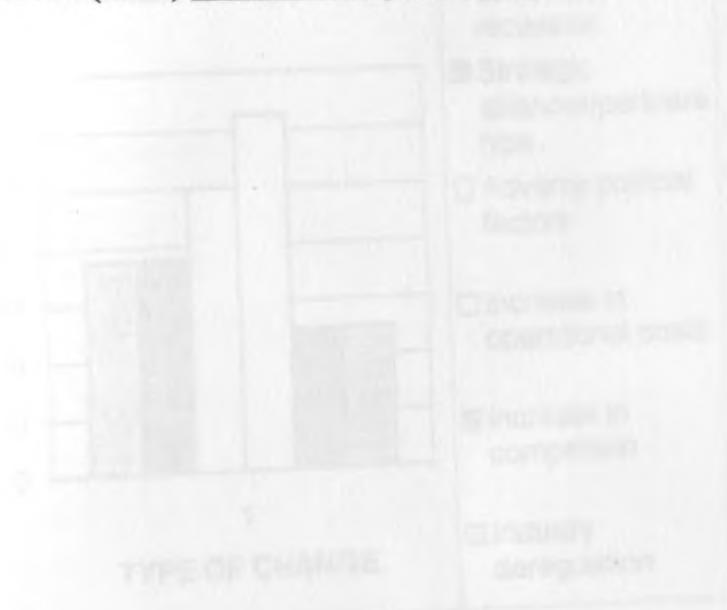
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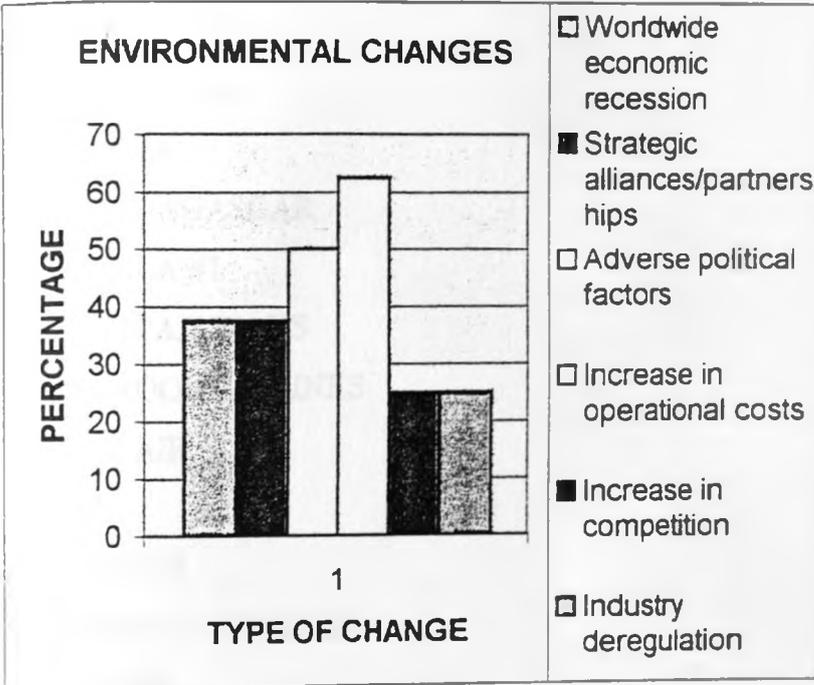
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APPENDIX I



LIST OF AIRLINES
(As at September 2001)

AIR MAURITIUS

AIR TANZANIA

AIR INDIA

AIR MADAGASCAR

AIR MALAWI

BRITISH AIRWAYS

CAMEROON AIRLINES

EGYPT AIR

EL AL

EMIRATES

ETHIOPIAN AIRLINES

GULF AIR

KLM

REGIONAL AIR

SABENA

SAUDIA

SOUTH AFRICAN AIRWAYS

SWISSAIR

AIRLINE QUESTIONNAIRE

Kindly answer the following questions as accurately as possible. Your answers will be treated in confidence and used strictly for academic purposes only. In no instance will your name or that of your airline be divulged.

SECTION A: CLASSIFICATION QUESTIONS

1. In which year was your airline established? _____
2. Which is your country of incorporation? _____
3. What is the current shareholding of your airline?
 - State Owned _____ %
 - Publicly Owned _____ %
 - Foreign owned _____ %
 - Other (Specify) _____ %
 - 100 %
4. Which airport represents your home base of operations? _____
5. What is the total number of aircraft in your fleet? _____
6. What is the geographic network coverage served by your airline?

	No. of Cities	Directly	With Code-sharer
Africa			
Europe			
Middle East			
North America			
Other (Specify)			

7. When did you commence your operations in Kenya? _____
8. How many flights /week do you operate to Kenya? _____

9. Which destinations do you serve directly to, fro and via J.K.I.A?

10. (a) What type of aircraft do you currently use in your operations to Kenya?

(b) Kindly state its seating capacity: First Class: _____
Business Class: _____
Economy Class: _____

11. Under which of the following categories do your passengers typically fall?

- (a) V.I.P/Business/Executive _____ %
- (b) Tourist/Leisure _____ %
- (c) Other e.g. groups (specify) _____ %
- _____ 100%

12. What is your average passenger load factor on this route? _____ %

13. How would you describe the level of competition faced by your airline in this market region? (Please Tick One.)

- Very Competitive ()
- Competitive ()
- Fairy Competitive ()
- Not Competitive At All ()

SECTION B: ENVIRONMENTAL CHANGE QUESTIONS

1. Has your airline's mission statement been altered within the last 10 years?
Yes/No. If yes, please state your new mission statement below.

2. Please state factors that led to the change in mission statement

3. What major challenges has/does your airline face(d) in this market region?

(A) _____

(B) _____

(C) _____

4. What external changes have taken place within the last 10 years that have had an effect on your airline's operations?

(i) _____

(ii) _____

(iii) _____

(iv) _____

(v) _____

5. To what extent have the above changes influenced your airline's objectives regarding the following?

Please tick one for each using the following incremental scale:

	Least Extent			Greatest Extent	
	1	2	3	4	5
1) Keeping Costs Low	()	()	()	()	()
2) Provision of Unique Services	()	()	()	()	()
3) Focusing on Specific Market Segments	()	()	()	()	()
4) Expansion of route network	()	()	()	()	()

6. Please indicate any changes in recent years in the level of threat from the following competitive forces. (Please tick one for each using the following incremental scale)

	Least Change			Greatest Change	
	1	2	3	4	5
1. Direct competitors	()	()	()	()	()
2. Potential Entrants	()	()	()	()	()
3. Substitute forms of communication	()	()	()	()	()
4. Influence of input Suppliers on Costs	()	()	()	()	()
5. Influence of passengers on prices/services	()	()	()	()	()

7. To what extent have the following external factors had an effect on your airline in recent years?

Please use the following scale to rate the degree of change

- | | |
|---------------------|----------------|
| 1. To a high extent | 4. A little |
| 2. To a fair extent | 5. None at all |
| 3. Moderately | |

(a) Technological Environment

	1	2	3	4	5
Advances in Information Technology	()	()	()	()	()
Requirement of State of the Art Aircraft	()	()	()	()	()

(b) Economic Environment

	1	2	3	4	5
Liberalization	()	()	()	()	()
Globalization	()	()	()	()	()
Economic Recession	()	()	()	()	()

(c) Political Legal Environment

	1	2	3	4	5
Deregulation	()	()	()	()	()
Decrease in State funding/Subsidies	()	()	()	()	()
Changes in Laws/Regulations	()	()	()	()	()

(d) Customer Profiles/Tastes

	1	2	3	4	5
Changes in the Above	()	()	()	()	()

(e) Competitive Environment

	1	2	3	4	5
Mergers/Alliances	()	()	()	()	()
Privatisation of Airlines	()	()	()	()	()
Competition from "Global" Airlines	()	()	()	()	()
Competition from Charter Airlines	()	()	()	()	()
Competition from Regional Airlines	()	()	()	()	()

SECTION C: STRATEGIC RESPONSE QUESTIONS

1. Does your airline form part of a strategic alliance/partnership with any other airline? Yes/No. If yes, please name airline(s)

2. Kindly state the major objectives your airline hopes to achieve from the above agreement.

- | | |
|----------|----------|
| 1. _____ | 4. _____ |
| 2. _____ | 5. _____ |
| 3. _____ | 6. _____ |

3. For each of the following strategic responses please tick what adjustments your airline has made in response to competition

	Little Adjustment		High Adjustment		
	1	2	3	4	5
A. SERVICE					
1. Improvement of Service Levels	()	()	()	()	()
2. Introduction of New Services	()	()	()	()	()
3. Introduction of New and Unique Services	()	()	()	()	()

B. PRICE

	1	2	3	4	5
1. Ticket Price Discounts	()	()	()	()	()
2. Ticket Price Reductions	()	()	()	()	()
3. Ticket Price Increases	()	()	()	()	()
4. Use of Price Discrimination	()	()	()	()	()

C. PROMOTION

	1	2	3	4	5
1. Increase in Advertising Expenditure	()	()	()	()	()
2. Increase in Media Publicity Expenditure	()	()	()	()	()
3. Event Sponsorships	()	()	()	()	()
4. Sales Promotions	()	()	()	()	()

D. COST STRUCTURE

	1	2	3	4	5
1. Capital Investments in Technology	()	()	()	()	()
2. Inputs Sourcing e.g. Fuel/ Supplies	()	()	()	()	()
3. Productivity Improvements	()	()	()	()	()
4. Cost controls	()	()	()	()	()
5. Diversification of Business Operations	()	()	()	()	()
6. Divestiture from Business Operations	()	()	()	()	()

E. MARKET RESEARCH ACTIVITIES

	1	2	3	4	5
1. Research expenditure on passenger needs/satisfaction	()	()	()	()	()
2. Research expenditure on competitor strategies	()	()	()	()	()
3. Investment on training and development programs	()	()	()	()	()
4. Hiring of experts/consultants	()	()	()	()	()
5. Increases on strategic planning expenditure	()	()	()	()	()

F. PROCESS

- | | 1 | 2 | 3 | 4 | 5 |
|---------------------------------------|-----|-----|-----|-----|-----|
| 1. On time arrivals/departures | () | () | () | () | () |
| 2. Implementation of Seamless Service | () | () | () | () | () |
| 3. Incidences of loss of baggage | () | () | () | () | () |

4. What are your future plans regarding Kenya as a destination? (Please tick one of the following.)

- a. Increase Market presence
- b. Maintain Market Presence
- c. Decrease Market Presence
- d. Serve Mkt. through Codesharer
- e. Exit the Market
- f. Not Sure

5. Kindly rank the following in order of importance to your airline.

Please use the following scale:

1(Most important)>2>3> 4>5(Least important)

- | | |
|----------------------|--------------------------|
| Survival | <input type="checkbox"/> |
| Growth | <input type="checkbox"/> |
| Profitability | <input type="checkbox"/> |
| Market Share | <input type="checkbox"/> |
| Competitive position | <input type="checkbox"/> |

6. Please add herebelow any information that you may deem to be relevant to this research questionnaire.

THANK YOU FOR YOUR COOPERATION