# CHALLENGES FACED BY AFRICAN AIRLINES IN SELECTING AND ENTERING INTERNATIONAL MARKETS

BY



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# DECLARATION

This Management research Project is my original work and has not been submitted for another degree qualification of this or any other University or Institution of learning.

Signed------------------------------------ Date 31 October, 2006

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

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# DEDICATION

I dedicate this research project to God for the blessings, which have made it possible for me to go through this program under challenging circumstances.

To my wife Janet, for the support during the period that I was pursuing this degree programme. To my sons Owen and Ian for being a source of inspiration. To my parents Lawrence and Florence for being a source of my inspiration too.

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| | | |
|---|---|---|
| AFRAA | – | African Airlines Association |
| BASA | – | Bilateral Air Service Agreement |
| GSA | – | General Service Agent |
| IATA | – | International Air Transport Association |
| JV | – | Joint Ventures |
| MNC | – | Multi National Corporation |
| USD | – | United States Dollar |

## ABSTRACT

Airline business is the fastest means of transport among countries of the world and plays a significant role in the growth of economies all over the world. Globally, African airlines' contribution to the world air travel is very minimal. It was therefore necessary to conduct a study to determine the challenges that African airlines faced in selecting and entering international markets. The objectives of the study were to determine the challenges African airlines faced in selecting international markets and the modes of entry into international markets.

A descriptive research design was use in this study. The population of interest was 37 International Air Transport Association (IATA) African Airline Members. A census study was done. Primary data was collected using a structured questionnaire that was e-mailed/faxed to the target respondents (managers or their equivalent involved either in planning, marketing and government industry affairs). 16 questionnaires were filled and returned. This represented a response rate of 43%. The data was analyzed using measures of Central Tendency, mainly frequencies, mean scores, standard deviations and presented in tables.

African airlines' contribution to global air transport is insignificant (36 million passengers compared to the global figure of 1.584 billion). Most of the African airlines operate both domestic and international markets with majority of the international destinations being within Africa. Most of the African airlines lack the capacity to compete outside the African markets because of tough market related conditions and the fact that on average most African airlines operate a fleet size of less than 10 aircraft that is mainly for short haul flights.

In selecting international markets, this study found that the greatest challenge African Airlines had to contend with was to assess the profitability, general risk and yield of the potential market. This is because of the lack of well developed models. Despite the fact that the industry is liberalizing very fast, African airlines were still bound by many regulatory tendencies that hindered them from venturing into international markets. Assessing the general risk of an entry mode and contribution of an entry mode to give an airline a

competitive edge in terms of increasing market share were the greatest challenges that airlines faced in choosing a mode of entry. The researcher recommends that African airlines conduct a thorough evaluation of their long term strategic orientation that would lead to design and development of meaningful strategic alliances for that is the only way they could overcome these challenges.

This study concentrated on scheduled carriers. Charter operators who have also entered into international markets may have been left out in the study. The researcher recommends that future studies be done to establish whether airlines from other parts of the world face similar challenges as airlines in Africa and also find out how the African airlines have handled the challenges that they face in selecting international markets and the mode of entry.

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background

International business has been going through the most fundamental and far- reaching process of change of the post war period. The implications of this change pose a significant challenge both to industry and government throughout the world and promise to alter not only the nature and structure of competition, but also the balance of economic power (Gilligan, 1989). Prominent amongst the causes of this change are shifting demographic profiles, ever greater levels of political intervention in the market mechanism, and, perhaps, most importantly of all, an increasingly competitive and malevolent market environment in which only the fast moving and proactive organization is likely to prosper (Gilligan, 1989).

These changes in the balance of economic power, the growth of new market opportunities, and the development of new technologies face businessmen with a deceptively straightforward and stark choice: they must either respond to the challenges posed by this new environment or recognize and accept the long-term consequences of failing to do so. It is a change, which to a greater or lesser extent will ultimately affect companies of all sizes in virtually all markets. (Gilligan, 1989). Jeannet and Hennessey (1993), have also observed that the increase in globalization has also contributed to companies to re-examining the manner in which they do business internationally. They argue that clear globalization trends are evidenced at three levels; customers; markets; industry and competition. This therefore has forced companies to adopt global strategies for survival.

The pressures of the international environment are now so great that the opportunity to survive with a broadly reactive strategy no longer exists. Recognition of the significance of these pressures are reflected in the rapid growth in recent years of the number of strategic alliances between firms in various parts of the world in a desperate attempt to gain the economies of scale in production, distribution, and marketing that are needed if a viable competitive profile is to be maintained. In a nutshell it has seen a lot of marketing activity extended beyond domestic frontiers in a process called internationalization (Gilligan, 1989).

Albaum etal (1998) agrees with this argument and indicates that companies started this process of internationalization in the 1980s but increased during the 1990s. They further assert that the current interest by business firms in international marketing can be attributed in large part to shifts in demand and supply characteristics in markets throughout the world as well as the ever changing competitive environment. They also argue that companies that have been serving only domestic markets are finding that these markets are reaching the point where supply, at least in terms of productive capacity is exceeding demand.

According to Albaum (1998), companies have had to respond by increasing penetration in the current markets i.e. get extra market share from existing consumer market base; develop new products for the existing markets; extend markets i.e. find new users for existing basic offerings or widen activities i.e. find new markets around core activities. All these are in response to the changes in the environment.

The process of finding new markets therefore has prompted an increasing number of firms to develop strategies to enter and expand into markets outside their home countries. Selection of foreign markets and entry modes therefore lies at the heart of any business decision for any organization that aspires to operate internationally (Sarkar and Cavusgul, 1996). Importance of the relevant analysis, and of the resulting decisions, grows with increasing dependence of companies on international business for survival and growth. Similarly, a growing intensity of competition would call for an improved quality of the overseas market and the selection of an entry mode (Douglas, 1989; Moyer, 1968). It is therefore imperative that an organization that is venturing into international markets has to carefully select which markets to enter and the entry modes to ensure they remain competitive.

### 1.1.1 International Marketing

According to Terpestra (1990), international marketing is the practice of all the marketing activities (market intelligence, product development, pricing, distribution and promotion) at home, plus the effort to export products to foreign countries. The same firm becomes more of an international marketer as it increases its direct involvement in these markets by participating in pricing, promotion, after sales service and ultimately manufacturing.

Most writers agree that international marketing clearly entails mainly carrying of marketing activities beyond the domestic market i.e. taking it across borders. Terpestra, (1990) argues that International Marketing can include such activities as overseas manufacturing, working with local partners, licensing, importing sometimes from overseas sub contractors and counter trade. All these are entry mode strategies that are important decisions that a firm has to make in international marketing. Gilligan (1989) also notes that International Marketing activities are mainly carried in environments/ countries that with various uncontrollable variables.

International marketing activities result from various forces that force companies to seek international markets in a process called internationalization. Albaum etal (1998) defines internationalization as a step-by-step process of international business development whereby a firm becomes increasingly committed to and involved in international business operations through specific products in selected markets.

### 1.1.2 The Airline Industry

An industry is defined as a group of firms that offer products that are close substitutes of each other to a market (Porter, 1980; Kotler, 1998). The airline industry generally is composed of international airlines, chartered, scheduled and domestic airlines. Most of these specialise in passenger business while a few are in the cargo business (African Aviation Journal, February, 2002). The airline industry has continued to face a number of challenges in its performance since September 11, 2001, when some planes were hijacked by terrorists and crashed onto the twin towers in the USA. The impact of this was immense on the airline industry generally and affected most African airlines that depend(ed) on traffic from USA and Europe. This forced the airlines to put on hold some of their plans like cancellation of aircraft that had already been ordered. (African Aviation Journal, December 2001). However recent trends indicate that the airline industry is on the road to recovery.

The passenger growth rate in the industry was 6% per annum prior to September 11 terrorist events. Thereafter the growth rate declined to –3.9% in 2001/2. However the industry has shown signs of recovery and was projected to have growth rate of 6.7% in the year 2004. It is estimated that the growth rates will stabilize at about 5% per annum. Overall, the total passenger flows are estimated at 1.584 billion. North America and Canada contributes the largest share of the traffic (42.2%), followed by Europe (25.0%), Asia - Pacific (23.3%). Africa contributes only 1.8% of the traffic (Airline Business magazine, September, 2003).

The effects of globalization and liberalization have hit airlines the world all over. Even though the effect has been felt by all the airlines, African airlines have felt the impact immensely and on a wider scale. For instance the African states are opening their skies to much stronger foreign competitors as a result of pressure from the World Bank and other international donors in the framework of worldwide globalization that is being forcefully promoted (African Aviation, December, 2001).

Many African airlines also increasingly face the challenge posed by the richer and more technologically advanced foreign ones, particularly in the long-haul sector. The unfavorable competition has also been complicated by black listing of some airlines allegedly for not meeting some safety conditions. This results in their banning from flying to some European destinations. Some of the airlines that have been banned include Lam Mozambique, Transairways, Central Air Express, International Air Tours, Johnson Air and Silverback Cargo Freighters (Daily Nation, 6, December, 2005).

These challenges lead to many airlines adopting various strategies for survival. Protecting current markets, entering new markets and formation of new alliances have become the norm. Airline business alliances is now a global trend that enables airlines pool resources that lead to synergistic effects. These synegistic effects include: the synchronization of schedules, puchase discounts, among others. Even though Africa has a number of African airlines, that ought to play a leading role in the world aviation industry, their contribution is minimal and rarely felt. This is because of a number challenges that they have to contend with in entering international markets which might be more unique to the African airlines compared to airlines from other parts of the world (African Aviation Magazine, December, 2001).

Therefore the selection of the market and entry modes is key and posses significant challenges in any business. The airline industry is not excluded. A case in point was when Nigerian Airways was barred from flying to London by the UK government. When the ban was lifted in 1998, Nigerian Airways would not operate because of financial and operational constraints. This left Nigerian Airways with no option other than to enter into an agreement in which British Airways, operated on behalf of the Nigerian airline (African Aviation, 2001).

**1.2 Statement of the problem**

Airlines play a key role in the growth of any economy. It is the fastest means of transport among countries of the world. According to African Airlines Association (AFRAA), (Daily Nation, 6th, December, 2005), air transport in Africa generates over 470,000 jobs and contributes $11.3 billion to the continent's gross domestic product. Globally African airlines' contribution to the world air travel is very minimal. This may be attributed to a number of challenges that they face in selecting international markets and the mode of entry used in entering the same.

In a conference held by African Airlines under the aegis of African Airlines Association (AFRAA) in South Africa, it was noted that the entry of foreign airlines in the African aviation industry due to liberalization is threatening the national African carriers (Daily Nation, 6th, December, 2005). This was mainly attributed to the fact that most of the foreign carriers that control a large share of the African market are wealthy. It was further noted that if the "invasion" by the foreign carriers is not checked, the African Airlines might soon grind to a halt.

From the foregoing, it is clear that African airlines play a significant role in the growth of African economies. But this role is under threat because the airlines face a lot of competition resulting from globalization and liberalization effects of the airline industry. This has had a direct attack on the African market that is deemed to be the fasted growing market and is also most profitable given the high yields derived from operating there.

For the African airlines to survive, they need to get access to international markets and take advantage of the long- haul traffic that is significant in the air travel industry. However the selection and entry into international markets has its own challenges that need to be well handled. This is because the design and outcomes of each market selection and entry mode selection depend greatly on the external and internal environment circumstances.

Koch (2001) in a study done in Australia, notes that every international market expansion and entry mode selection process begin with the recognition of the need to expand internationally. This recognition is based on an analysis of company objectives. The circumstances in which a firm may need to expand may differ from case to case. Kimata (2003) did a study on the factors that Kenyan firms consider when deciding to establish subsidiaries/branches in Uganda and Tanzania. The study found that infrastructure, political stability, and economic growth potential of the country to be the key factors valued by investors. Thiga (2003) on the other hand, found out that international airlines had undertaken to restructure their operations in order to counter environmental changes in order to survive.

The aforementioned studies concentrated on the process of market selection and entry modes. They also focused on factors to consider in entering foreign markets and also the strategic responses taken by firms given a change in the external business environment. They have not brought out challenges that companies face in entering international markets. Besides this the study by Koch (2001), concentrated on markets outside Africa. The findings might therefore not be fully relevant to the African markets because of the different business environments operating in these markets.

It was therefore necessary to conduct a study to determine the challenges that African airlines face in selecting and entering international markets. By understanding these challenges firms in the airline industry may be able to design strategies that will grow and expand the airline industry in Africa given its contribution to economic growth. The proposed study therefore sought to answer the following research questions:

a) What are the challenges that African airlines face in selecting international markets?
b) What are the challenges that African airlines face in selecting the mode of entry to use in entering international markets?

## 1.3 Objectives of the study

The objectives of the study were as follows: -

a) To determine the challenges African airlines faced in selecting international markets.
b) To determine the challenges African airlines faced in selecting the mode of entry into international markets.

## 1.4 Importance of the Study

Findings of this study may be useful to the following groups:

a) Airlines – they may be able to understand challenges that are faced by airlines in selecting international markets as well as in selecting the mode of entry into these markets. They may also learn how to handle the challenges. The findings may also be used to grow and expand the airline industry in Africa.
b) African Governments - It may help the governments understand the challenges facing the airlines and come up with policies that facilitate easy entry into international markets.
c) Researchers and academicians - The study may contribute to a body of knowledge on the airline industry in Africa. It may also provide a basis upon which other related studies can be done.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This chapter focuses on the review of literature related to this research. This was done with a view to collecting views, perspectives and opinions on international marketing selection and entry. The review depended on theoretical literature that was, books, research papers, magazines and information from the internet.

## 2.2 Meaning and Importance of International Marketing

International business has been going through the most fundamental and far- reaching process of change of the post war period. It is a change, which to a greater or lesser extent will ultimately affect companies of all sizes in virtually all markets, (Gilligan, 1989). Jeannet etal (1993) has also observed that the increase in globalization has also contributed to companies to re-examining the manner in which they do business internationally. They argue that clear globalization trends are evidenced at three levels; customers; markets; industry and competition. This therefore has forced companies to adopt global strategies for survival.

According to Albaum (1998), companies have had to respond by increasing penetration in the current markets i.e. get extra market share from existing consumer market base; develop new products for the existing markets; extend markets i.e. find new users for existing basic offerings or widen activities i.e. find new markets around core activities. This therefore leads to businesses venturing into markets outside their home markets in a process called internationalization.

International marketing is the practice of all the marketing activities (market intelligence, product development, pricing, distribution and promotion) at home, plus the effort to export products to foreign countries (Terpestra, 1990). International Marketing management includes the management of marketing activities that cross the political boundaries of sovereign states. It also includes marketing activities of firms that produce and sell within given foreign nation if the firm is a part of an organization or enterprise that operates in other countries; there is some degree of influence, guidance, direction, or control of such marketing activities from outside the country in which the international firm produces and sells the product (Albaum, 1998).

Gilligan (1989) explains domestic marketing in terms of a company manipulating a series of controllable variables such as price, advertising, distribution, and the product, in a largely uncontrollable external environment made up of competitors, cultural values, a legal infrastructure and so on. Gilligan (1989) continues to assert that the unique dimension of international marketing is that in many cases not only do the uncontrollable variables differ significantly between one market and another, but the controllable factors in the form of cost and price structures area also likely to differ significantly between markets. It is these differences that lead to complexities in international marketing. Albaum (1998) differentiates international marketing from the perspectives of changes in important ways in the nature of marketing management, the solution of marketing problems, the formulation of marketing policies and the implementation of such policies.

In a broad sense, Ball (1993) notes that the existence of uncontrollable forces in the external environment is responsible for firms seeking foreign markets. These forces relate mainly to competition, distribution, economy, socioeconomic, finance, legal, physical, politics, socio-cultural, labour and technology. Gilligan (1989) has pointed that firms go international because of various reasons that mainly relate to the need to seek for opportunities abroad, increased international, government incentives among others.

It is important to note that international marketing has become so important for many firms in recent years such that its impact upon domestic marketing programmes is becoming increasingly significant. For instance, companies are adapting product development programmes so that the final product can be marketed in as many countries as possible with few, if any, modifications. Both Ford and General Motors, for example, have in recent years pursued the development of "world cars" which are targeted at an identifiable world market segment and modified approach has also been adopted by Toyota with the Corolla, and Caterpillar with a range of construction and earth moving equipment. The ultimate objective of many companies pursuing such a strategy is the development of a truly global brand, one which is acceptable throughout the world. Terpestra (1990) summarizes global marketing as coordinating marketing activities in multiple markets. Ball (1993) on the other hand simply observes that global marketing attempts to standardize operations worldwide in all the marketing functional areas of product, promotion, and distribution among others.

Gilligan (1989) asserts that International Marketing is conducted from two levels. At its simplest level, it involves a firm making one or more marketing-mix decisions across national boundaries. On the other hand i.e. the complex level, it involves the firm establishing manufacturing facilities overseas and making what are perhaps the very different mix decisions in a variety of markets. Albaum (1998) adds that International Marketing also includes dimensions of the market selection and market entry mode strategy.

A further dimension to international marketing is that of the larger and more complex international operation that is multinational marketing management; in other words, how a company effectively coordinates, integrates and controls a whole series of national marketing programmes into a worthwhile multinational marketing effort. A primary objective of international marketing effort is to achieve a degree of synergy in the overall operation so that by taking advantage of different exchange rates, tax rates, labour rates skill levels and market opportunities, the organization as a whole will be greater than the sum of its parts. (Gilligan, 1989).

These sorts of production and sales arrangements have a number of significant managerial implications and call for managers who are capable of operating as international managers, a challenging task which is far broader than that of operating either in a specific foreign country on in a domestic market. According to Terpestra (1990) ‘the international marketing manager has a threefold responsibility: *international marketing* (marketing across national boundaries); *foreign marketing* (marketing within foreign countries); and *multinational marketing management* (co-coordinating marketing in multiple markets).

Gilligan etal (1989) have pointed to a wide variety of reasons why firms enter international markets. Among the reasons cited included the saturation of the domestic market whilst opportunities for further growth still exist overseas; foreign competition in the domestic market which leads firms either to seek other less competitive markets or take on the competitor in its home markets; the emergence of new markets, particularly in the developing world; government incentives to export; tax incentives offered by foreign governments to establish manufacturing plants in their countries in order to create jobs; the availability of cheaper or more skilled labour; an attempt to minimize the risks of a recession or political instability in one country; and a desire to achieve the greater economies of scale which were only possible by moving into foreign markets.

Albaum (1998) on the other hand categorizes the forces that drive firms into international markets into global, international, domestic and company specific forces. Firm factors mainly include company specific advantages; global factors include an enabling environment; home country factors include smallness, openness, location and domestic push and host country factors entail largeness, openness and the international pull itself. Jeannet (1993) and Ball (1993) note that firms seek international markets for mainly opportunistic development; following customers abroad; geographic diversification; extension for incremental profit; take advantage of different growth rates of economies; exploiting product life cycle differences; existence of potential abroad; defensive reasons (protecting markets, profits, and sales); to leverage key success factors abroad.

The various forces analyzed above therefore, force companies to seek international markets in a process called internationalization. Albaum etal (1998) defines internationalization as a step-by-step process of international business development whereby a firm becomes increasingly committed to and involved in international business operations through specific products in selected markets.

## 2.3 Market Selection and Entry

The design and outcomes of each market selection and entry mode selection depend greatly on the external and internal environment circumstances. Apparent logic of the process, or its absence, selection criteria, process dynamics, amounts and kinds of information used, environmental perceptions, employee participation levels are just a few examples of factors which could and would influence the market and market entry mode choices. Not all the market and entry mode selection practice could be regarded as found reliable or efficient. Take, for example, selecting overseas markets without considering the feasibility and sales potential impact of various market entry alternatives.

Figure 1- shows stages of the market selection process as advocated by various authors mainly Cavusgil (1985); Johansson (1997); Kumar (1994) and Root (1994).

*Figure 1- Stages of Market selection*

| | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 4** |
|---|---|---|---|---|
| Cavusgil (1985) | Screening | Identification | Selection | |
| Johansson (1997) | Country identification | Preliminary screening | In-depth screening | Final selection |
| Kumar (1994) | Screening | Identification | Selection | |
| Root (1994) | Preliminary screening | In-depth screening | Final selection | |

*Source: Koch Adam (2001). Selecting Overseas Markets, MCB University Press*

Every international market expansion and entry mode selection process begins with the recognition of the need to expand internationally. This recognition is based on an analysis of company objectives. The circumstances in which the need to expand may be recognized differ from case to case, for example in terms of the particular motive of the international market expansion of the source of the international stimulus. This is usually the first stage that might not be included in most models (Koch, 2001).

The main purpose of the preliminary screening of markets is to bring about an efficient reduction in the number of countries in need of an in-depth examination (Johansson, 1997; Root, 1994). This is achieved through eliminating all those that cannot be accessed by the company, or do not constitute commercially viable options. On the other hand, the in-depth screening of markets has the ranking of the remaining markets against a number of accepted decision criteria as its prime purpose. Albaum (1998) notes that the screening is important so as to avoid moving into international markets in a piecemeal and unplanned manner.

Another often-neglected aspect of the market and entry mode selection is the decision criteria used in this selection. In some situations their determination and application are results of a formal decision process undertaken by the company. In others it will be the discretion of an individual or a small informal group that will decide their selection and implementation. In both cases, choice of selection criteria will be influenced by the corporate culture, existing management systems and the collective and individual experience (Koch, 2001).

Koch (2001) continues to explain that the next stage, country identification has to do with the examination of the available alternatives. Depending on the amount of information available, market dynamics, urgency of the move for the company and the formalization of the process, this stage may take anything between a few weeks and several years (Koch, 2001).

### 2.4 Market entry modes

Selecting an institutional arrangement- a mode for entering or expanding in a foreign market- is one of the most crucial strategic decisions that an international firm has to make (Root 1994). A well chosen mode can enable a firm to gain competitive advantage. However inappropriate modal decisions are difficult to change when long-term contracts and/ or large resource commitments are made. Poor modal choices can lead to "sinking the boat" or "missing the boat" (Dickson and Giglierano, 1986). At the same time, some contractual modes of entry can prevent a company from taking full advantage of large market growth. A careful assessment of these trade-offs is essential in today's global economy. Root (1994) identifies four major alternatives of entering foreign markets. These are exporting, licensing, joint ventures, and wholly-owned subsidiaries.

Exporting differs from other modes in that a company's final or intermediate product is manufactured outside the target country and subsequently transferred to it. Indirect exporting uses intermediaries who are located in the company's home country and who take responsibility to ship and market the products. With direct exporting the producer firm does not use home country middlemen, although it may utilize target country intermediaries. Boeing is one of the largest direct exporters of the world, manufacturing most of its aircraft within the USA, but selling the majority of its planes in other nations.

Target market factors, particularly competitive issues, are the most important factors that lead to the use of this mode of entry. Costs and prices may be lowest if production is done in only few locations around the world and the efficiently produced goods are exported to most markets, as in the pharmaceutical industry (Gregory, Taylor and Zou, 2001)

Licensing is non-equity, contractual mode with one or more local partner firms. A company transfers to a foreign organization the right to use some or all of the following property: - patents, trademarks, company name, technology, and/or business methods. The licensee pays an initial fee and /or percentage of sales to the licensor. Licensing is a quick and easy way for firms to expand into other nations when they lack the resources to do it alone.

Factors/conditions under which licensing is used include the fact that the requirement by a host government to put pressure on the international firm to easily find alternative companies to do business with. The danger with this method however is the loss of technology unwillingly. This situation occurs when a firm wants to expand into a country but lacks the capital to do so. Low political risk also is another factor that usually leads to the preference of licensing as a mode of entry (Gilligan etal, 1998).

Joint ventures involve two or more organizations that share the ownership, management, risks, and rewards of the newly formed entity. Each partner contributes equity that may take the form of money, plant and equipment, and/or technology. For example, Matsushita established a joint venture with Philips in Belgium to produce batteries (Albaum, 1998).

Host government policies and preferences are an important factor when choosing joint venture entry strategy. USA Federal and State governments encourage Japanese direct investment rather than exporting; but they have not developed policies that encourage the use of JVs. Many other nations have encouraged the use of JVs as a means for local companies to acquire technology. It is well known that the two largest nations of Asia, China and India, have pressured MNCs to develop joint ventures with local firms, rather than to set up wholly owned subsidiaries (Anand and Delios, 1996). Strategic factors are also associated with the use of JVs. This is especially in a case where a MNC may want to enhance its competitive advantage. The fact also that technology is disseminated from one partner to another in a joint venture is a motivation for a firm in a developing nation to establish a JV with a developed nation firm, and a reason for an experienced MNC not to use this mode of entry (Woodcock et al., 1994).

Wholly owned operations are subsidiaries in another nation in which the parent company has full ownership and sole responsibility for the management of the operation. Japanese automobile manufacturers are well known for their use of wholly owned subsidiaries in the USA in the late 1980s and 1990s (Sohn, 1994). Wholly Owned Subsidiaries offer firms the highest levels of control and also the lowest technology risk but they require the highest resource commitments.

### 2.5 Challenges in entering international markets

A challenge can generally be defined to mean an issue that confronts, poses a hinderance, a limitation, or problem that needs to be overcome. On the other hand a factor can generally be defined as a consideration, aspect, a reason or feature that needs to be taken into account when undertaking something. For the purposes and scope of this study, some of the factors that firms consider when entering into international markets and selecting mode of entry can also be a hindrance. These factors become a hindrance when they pose a limitation to the firm/airline when it enters into international markets or selects mode of entry and hence posing a challenge.

Albaum etal (1998) and Gilligan (1989) note that international marketing management is faced with three basic decisions. The first is whether to engage in international marketing activities at all. Second, if a company decides that it wants to do business international markets, then a decision has to be made concerning what specific individual markets are to be served. Finally, the company must determine how it is going to serve these markets i.e. what method or system should be used to get product(s) into the hands of consumers in foreign countries.

Gilligan (1989) observes that the question of how best to enter foreign markets is the first and in many ways the most fundamental to be faced by the marketer, since it is this choice that subsequently influences and shapes the whole of the international marketing programme. If for example the company opts for a distributor or a licensee, its ability to influence pricing and promotion is likely to be limited. In essence however, the market entry decision involves a balancing of costs, control and risk. In choosing a method of market entry, Albaum etal (1998) and Gilligan (1989) note that this has the obvious and significant implication for marketing strategy. At one level, this can be seen in terms of the degree of freedom that the company has in choosing its target markets and in the ways in which it subsequently goes about the process of matching market demand.

At a rather deeper level, however, the choice of a method of entry has direct consequences for the firm's ability to develop an international image and reap benefits of the economies of large scale and standardized production and marketing programme. The benefits of a standardized approach across all or most of the world's markets have long been recognized in a general way, although it is only in recent years that any more than a handful of companies such as Coca Cola, Caterpillar, BIC and IBM have actually pursued it.

Baker (1985) has indicated that many of the difficulties that companies typically experience in international markets are as a result of the fact that many companies do not have the resources to develop a sophisticated marketing process. That most companies seek a market for an existing product with which they have had considerable domestic experience i.e. the company is seeking to match needs with their products rather than develop a product to satisfy identified but unfulfilled needs. Another reason is that few companies have a natural feel for a foreign market. As a result, their experience will be limited and takes time to develop. Baker (1985) also argues that few companies possess the wealth of published data available in domestic markets making the quantification and prediction of export markets more difficult.

In selecting a foreign market and the mode of entering the market, firms are faced by a number of challenges. Overall, in deciding between these alternatives, several issues need to be taken into account. These include the company's objectives and expectations of the volume of business to be generated; the size of the company and its financial resources; patterns of involvement in other foreign markets; the managerial culture and levels of international marketing expertise within the company; the nature and degree of competition within the market; the nature of the product and whether it has any distinct competitive advantages either in terms of its technology, patent protection or trademarks; the market's political infrastructure and whether any tariff or non- tariff barriers exist or area likely to be introduced. (Gilligan, 1989; Albaum, 1998; Ball, 1993;. However it is important to note the challenges in selecting a market and/or an entry mode may be similar or dissimilar at all.

### 2.5.1 Challenges in selecting international markets

Challenges faced by organizations in selecting international markets include the non-existence of a clear company strategic direction and objectives, previous international experience, stage in which the firm is, application of appropriate methods in determining the viability and potential of the market, resource capability, similarity/proximity of the overseas market, market portfolio congruity, how to anticipate the overseas market risks among others

Companies develop strategic orientations, which reflect their individual and group experience, values and attitudes of their employees (those currently employed and their predecessors), changes in their business environment and strategic objectives established for the company i.e. some degree of stretch required to achieve these, (Hamel and Prahalad, 1994). Some of these may aim to establish/reinforce perception of the company as a market leader, or reduce strategic risks associated with company survival or growth, etc. Strategic orientation may predispose companies to more, or less, collaboration with their competitors; it is also likely to strongly influence the process of business internationalization. Unclear company strategic orientation especially in the values and attitudes of their employees towards international business poses a challenge to organizations doing international business.

Important too and related to the strategic orientation is the strategic planning horizon of an organization. Johanson (1997) proposes that the longer the time horizon in company strategic planning, the more likely it is for the company to prefer countries that show greater long-term prospects over those where only the immediate market prospects appear comparatively favorable. This would imply that companies with a relatively short planning horizon would in most instances deny themselves most chances to enhance the firm's competencies, capabilities and skills through global market participation and thus pose some challenge in the selection of the market to enter.

Evaluation of company international business experience involves examining its intensity, recency, relevance, character (positive vs. negative) etc. Experience is a major factor shaping strategic directions, company corporate culture and collective knowledge, or common wisdom. Without sufficient, relevant experience and knowledge, there tends to be a stronger sense of risk and uncertainty involved in the global marketing decisions, which in turn constrains at least the subjective, if not the objective, freedom of choice of market servicing modes.

Methods used in evaluating the viability of alternative markets pose a challenge too. First are the methods based on risk assessment versus methods based on benefit evaluation, and second, methods based on the cost logic versus methods based on degree of marketing control (Porter, 1980; Root, 1994). The relative popularity of these alternatives in the relevant business practice depends on the industry, and company, tradition, which in turn is correlated with availability of information, legislation and the general characteristics of the country's business infrastructure. Country market potential is a common criterion used in market selection (Johanson, 1997; Root, 1994). Yet, the role of judgment, and the potential for political contamination of the relevant product statistics or country rankings are often underestimated. Reliability of the relevant information, and of the methods used in obtaining it, has attracted considerable attention (Cavusgil, 1985). Product market specific variables used in market potential estimation need further intensification in various industries.

Companies that have more of their own resources, and/or have secured better access to resources of other companies through various forms of alliances, are less restricted, other things being equal, in their international market selection. In larger, multidivisional companies with many product categories, multiple perspectives may need to be adopted to cater to the different strategy requirements of each individual product/product line. The underlying analysis may be conducted on a largely static or, alternatively, a dynamic platform. The strategic options of various forms of strategic alliances or the more temporary measure of piggybacking are of increasing popularity as markets become more global, competitiveness becomes more intense and the response time to market must continue to decrease.

Through networking measures such as participation in international trade fairs, exhibitions, sharing the same suppliers, buyers, through strategic alliances, joint ventures and *ad hoc* consortia (tendering process), companies develop their networks and increase their internationalization (Johanson and Mattson, 1988). Certain ethnic groups (e.g. Chinese) have been found more likely to develop their business networks on the basis of shared ethnicity. Contemporary requirements of globalization, in particular implications of the rapid growth of electronic commerce, may affect these tendencies and forms they take.

Similarity/proximity of overseas market is another challenge. Psychic distance has been found to often influence overseas market selection. Length and strength of cultural and business links between one's own and some foreign countries, stereotypes or dominant perceptions of these countries, company employees' familiarity with these countries and individual perceptions of decision makers or influencers exercise a considerable influence on the choice of markets and on the order in which they get selected. The role of relevant experience and that of expatriates in forming perceptions of foreign markets are difficult to underestimate in this respect.

The extent to which a firm can optimize from the market selected is a challenge. Many companies expand globally in a cascade manner, starting from either: markets considered least demanding and then entering more, and more challenging foreign markets, as their experience, competencies, capabilities and skills grow; or markets where demand for some new products has already reached the level which makes an entry a commercially viable proposition for them, and then moving to markets that follow the pioneers. Selecting a market that will establish the best sequence of market expansion to be sought for the company to use its resources efficiently and sustain its global growth is a great challenge (Koch, 2001).

Related to this is establishing if the market selected contributes to the importance of lead markets as cues used in assessing company current performance and predicting its changes. Leading (or lead) markets (usually large, strong at the high-end of the product line, free from government regulation and protective measures, with strong competitors and demanding customers) are of considerable strategic significance in global marketing (Elliott and Cameron, 1994). Managing to get into these markets and staying there provide the company with an excellent opportunity to bring up its capabilities and skills to the highest levels required globally.

### 2.5.2 Challenges in selecting mode of entry

After identifying and selecting the market to enter, the next challenge is to determine which mode of entry to use in entering the identified market. Some of the challenges that the firms face entail the size of resources the firm owns and it wants to devote, the extent of control that the company wants to exercise in the market, the company's past experience in the use of the mode of entry, the attitude of management towards risk, the market share and profit targets that the company is seeking, competencies, skills required for the mode of entry, characteristics of the overseas country business environment including market barriers, feasibility/viability of the entry mode, popularity of the individual market entry method in the overseas market.

Smaller companies usually have fewer market servicing options (Benito and Welch, 1994), as their very limited own resources may simply not allow, or discourage from, some market entry modes. For example, establishing a fully owned subsidiary often involves very substantial investment and correspondingly high risk levels. Similarly, small companies may not have sufficient management potential and special skills to enter foreign markets through establishing fully owned foreign-based subsidiaries or international joint ventures. The influence of company size on its freedom of choice in selecting market entry mode and their relevant preferences depends on industry-specific resource demands for individual market entry modes. In the chemical industry, for instance, this relationship will be much stronger than in the computer software industry.

Experience in using market entry mode is another challenge. How many times, how recently, in what circumstances (similar enough, dissimilar) the company (or its competitors) has used any particular market entry mode, their relevant success rates and degrees - all these factors obviously influence both market entry selection process and the choices themselves (Paliwoda and Thomas, 1998; Root, 1994). Companies that have gathered a considerable knowledge of a region prefer to invest resources into business ventures in that region rather than seek contractual modes there.

Various market entry modes produce different levels of profit and market share; equally importantly, the dynamics of profit generation of various modes (take, for example, indirect export and investment in a new manufacturing and marketing overseas operation) are very dissimilar. The former will show some profits almost immediately and then may soon level off, the latter may mean no profits for three or four years (construction cycle, time needed to establish all necessary market contacts, acquire/build all necessary assets, train the sales force as required, develop customer base, etc.). A long decision horizon may prefer the latter; a short one will prefer the former. The suitability of the method used in estimating and comparing anticipated profits between various entry modes and reliability of inputs are two other important concerns. Johanson (1997) suggests that the lower the target rates of return, the more likely it is for the company to select countries that show greater long-term prospects and promise to enhance the firm's capabilities and hence chose entry methods that will guarantee the same.

Characteristics of the overseas country business environment also pose a challenge to companies in the selection of an entry mode. While the general characteristics of overseas country business environments are usually very easy to obtain these days, industry and company-specific information is usually more difficult to acquire. Whilst the former category of information is not always free from bias, complete and up-to-date, the latter is considered quite sensitive and usually not provided free of charge; indeed, it may be quite costly to obtain, a concern for small beginners, in particular. Similarity and volatility of general business regulation/practices, business infrastructure and supporting industries levels of development, forms, scope and intensity of competition, customer sophistication and customer protection legislation are amongst those characteristics which would normally attract the attention of potential entrants into a foreign market (Cavusgil 1985).

Market barriers can make access to foreign markets more difficult. The following categories are considered of major importance as indicated by Cavusgil, (1985) and Johanson, (1997). They are tariff barriers; governmental regulations; distribution access; natural barriers (market success and customer allegiances); advanced versus developing countries; and exit barriers.

Some entry modes (fully owned foreign subsidiary, international joint ventures) have been excluded by law in some countries. Some of these exclusions may relate to selected industries considered to be of strategic significance for the state. Some entry modes (licensing) may involve excessive know-how dissemination risk, particularly if the foreign country is not a signatory to the appropriate international conventions. Other hinderances (e.g. restrictive labor regulation and practices, cost of labour, insufficient level of skill) may discourage from establishing a subsidiary, or a joint venture operation in a foreign market.

Investing in a foreign subsidiary may secure a favourable taxation treatment (for instance, tax holidays) and save the company a lot of money on avoiding paying custom duties. Owing to specific risks and costs involved in individual Market Entry Modes, and varying associated sales potentials over a period of time, some Market Entry Modes may turn out less viable than others in a given situation context. Some country markets may show a high popularity level for some modes of market entry with the industry in question (Seabright, 1996). Selection of entry mode by new potential entrants will be influenced by the experience, degree of success of the former entrants and the anticipated product market situation.

### 2.6 Summary of the Literature Review

International business has been going through the most fundamental and far- reaching process of change of the post war period. Some of these changes include shifting demographic profiles, political intervention in the market mechanism, increased competition, changes in the economic power, and growth of new market opportunities. These pressures in the external environment are so great that the opportunity to survive with a broadly reactive strategy no longer exists hence leading to organizations to pursue many strategic responses in an attempt to gain economies of scale in production, distribution, marketing etc. In a nutshell, marketing activity has extended beyond domestic frontiers in a process called internationalization, (Gilligan, 1989; Albaum, 1998); a process started in the 1980s but increased during the 1990s.

The airline industry generally is composed of international airlines, chartered, scheduled and domestic airlines. Globalization and liberalization effects have had an effect in the airline industry too with most affected being the African airlines. The trend is that the richer and technologically superior airlines are posing challenges to the African airlines - resulting in the African airlines adopting various strategies to survive.

Airlines play a key role in the growth of any economy. In Africa, air transport generates over 470,000 jobs and contributes $11.3 billion to the continent's gross domestic product. Globally African airlines' contribution to the world air travel is very minimal. These may be attributed to a number of challenges that they face in selecting international markets and the mode of entry used in entering the same. The selection and entry into international markets has its own challenges that need to be well handled. This is because the design and outcomes of each market selection and entry mode selection depend greatly on the external and internal environment circumstances.

Studies by Koch (2001), Kimata (2003) and Thiga (2003) concentrated on the process of market selection and entry modes. They also focused on factors to consider in entering foreign markets and also strategic responses taken by firms given a change in the external business environment. They did not bring out the challenges that companies face in entering international markets and even in selecting the mode of entry. Besides this, the study by Koch, (2001) concentrated on markets outside Africa. The findings therefore might not be fully relevant to the African markets because of the different business environments operating in these markets. It is therefore necessary to conduct a study to determine the challenges that African airlines face in selecting and entering international markets. By understanding these challenges firms in the airline industry will be able to design strategies that will grow and expand the airline industry in Africa given its contribution to economic growth.

In selecting international markets and entry modes, firms face a number of challenges. Broadly the challenges can be market, competition, organization, regulatory, product and customer related. These are summarized in figure 2.

*Fig 2 – Summary of challenges faced in selecting international markets and modes of entry*

<table>
<tr><th>SELECTING INTERNATIONAL MARKETS</th><th>SELECTING MODE OF ENTRY</th></tr>
<tr><td>

**Market related challenges**

- Assessing the potential of the market
- Method to be used for viability assessment
- Assessing extent to which the market will contribute to organisation objectives
- Proximity/distance- psychic distance
- Risk assessment of the market
- Market congruity of the potential market

**Competition related challenges**

- Assessing the level of intensity of competition
- Assessing anticipated product innovations/ change in the target market

**Organization related challenges**

- Extent to which organisation strategic orientation (values and attitudes) supports entry into foreign markets
- Past bad/good experience

**Regulation related challenges**

- Assessing the level of regulation in the potential market
- Accommodating host government interests
- Accommodating home government interests
- Existence of tariff/barriers

**Product related challenges**

- Assessing the product to be offered in the target market

**Customer related issues**

- Assessing the level of customer sophistication in the potential market

</td><td>

**Entry Mode related challenges**

- Determining the amount of resources to be deployed in the market
- Assessing the feasibility of the entry mode
- Method used to assess the feasibility of the mode
- Determining the control to be exercised in the market

**Competition related challenges**

- Mode used by competition

**Organization related challenges**

- Assessing extent to which the entry mode contributes to organisational image
- Past experience in using an entry mode

**Resource related challenges**

- Availability or non- availability of skills and competencies required

**Regulation related challenges**

- Existence of government regulations
- Existence of tariff barriers
- Existence of regional trade barriers
- Existence of exit barriers

**Product Distribution related challenges**

- Existence of distribution access barriers
- Availability of the right type of equipment to be used

</td></tr>
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*Source- Author*

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter describes research design, targeted population, sampling procedure and data collection instruments, which were used in the study.

## 3.2 Research Design

The research was a descriptive study that aimed at establishing the challenges that are faced by African scheduled airlines in selecting and entering international markets. It also sought to identify what methods are used in entering international markets. According to Donald and Pamela (2003) and Boyd, Westfall and Stasch (1990), a descriptive study aims at determining the what, when and how of a phenomenon which was the concern of the study.

## 3.3 The Population

The population of interest in this study was International Air Transport Association (IATA) African Airline Members. According to International Air Transport Association (IATA) website, there were 37 African Airline members as at March 2006 (see appendix 4). Given the small number of firms, a census study was conducted. The IATA African Airline Members were targeted for this study because almost all of them have ventured into international markets. Karemu (1993), Kombo (1997), Thiga (2002), Kimata (2003) and Bett (2005) used census studies.

## 3.4 Data collection methods

Primary data was collected by use of a structured questionnaire (see appendix 2). Target respondents were managers or their equivalent involved in planning, marketing and government industry affairs of the airlines. One respondent from each airline was targeted. The questionnaire was e-mailed to the targeted respondents with an introductory letter, (see appendix 1). The respondents were asked either to e-mail or fax the questionnaire back to the researcher. To enhance on the response rate, the researcher used the Kenya Airways Regional/Country Managers for follow up in the respective countries.

The questionnaire was divided into three parts. Part A was aimed at gathering the demographic profiles of the airlines under study. Part B was aimed at establishing the challenges faced in selecting international markets while part C was to address the challenges faced in selecting a mode of entry into the international markets. Part C also targeted to establish the modes the airlines have used in entering international markets. Both closed and open-ended questions were used.

### 3.5 Operationalizing Market Selection and Market Entry method selection

Appendix 3 indicates how the variables were operationalized to address the challenges involved in the selection of international markets and the challenges encountered in selecting modes of entry. Variables in part B were tested to answer the objective of determining the challenges African airlines face in selecting international markets. Variables in part C were tested to answer the objective of determining the challenges encountered in selecting mode of entry.

### 3.6 Data analysis techniques

Data in section A of the questionnaire was analyzed using frequencies and percentages. While data in part B was analyzed using measures of Central Tendency (mean scores, standard deviation) to determine which are the challenges that airlines face in selecting international markets. Data in part C was also analyzed using measures of Central Tendency (mean scores and standard deviation) to determine the challenges encountered in choosing a mode of entry to operate in the international market selected.

# CHAPTER FOUR

# DATA ANALYSIS AND FINDINGS

## 4.1 Introduction

This chapter contains summaries of data findings together with their possible interpretation. The chapter is divided into three sections two of which are related to the objectives of the study. The first section analyses the general information of IATA African member airlines that responded to this study. The second section analyses the challenges that the airlines faced in selecting international markets. The third section analyses the challenges faced by the airlines in selecting the modes of entry into the international markets.

Questionnaires were sent to the 37 IATA African member airlines, out of which sixteen (16) responded by completing and returning the questionnaires. 21 did not respond. This represents a response rate of 43%. The sample respondents were representative of the target sample and hence the results can be valid. Responses were also obtained from AFRAA.

## 4.2 General information on African Airlines

This section generally covers the general information on IATA African airline members as analyzed from the airlines that responded and also information gathered from AFRAA. The specific information that is covered include, number of passengers carried, the turnover, destinations, fleet size, commercial arrangements and new markets ventured into. The findings are discussed in the following sub-sections.

### 4.2.1 Turnover

The sample respondents consisted of airlines that started operations between the year 1932 and 1994. Based on information from the AFRAA, overall the IATA African Airline members carried over 36 million passengers and had an annual turnover of over USD 8,464 million for the year 2005. It is important to note that some of the airlines that responded to the questionnaire treated these twin aspects of passenger numbers and turnover as confidential information.

### 4.2.2 Destinations

Besides having domestic operations (services within the home country) all of the airlines had ventured into the international markets (services outside their domestic operations).

**Table 1: Type and number of destinations**

| Destination | Frequency | Percentage |
|---|---|---|
| Domestic | 50 | 27 |
| Within Africa | 88 | 47 |
| Middle and Far East | 23 | 12 |
| Europe and North America | 26 | 14 |
| **Total** | **187** | **100** |

As shown in table 1, almost half of the markets served are within Africa (47%) compared to Asia, Europe, United States and Canada. By African airlines serving many African markets (within the continent) is generally in line with a trend where airlines tend to venture into many regional (within a continent) destinations before they move to international markets.

### 4.2.3 Aircraft fleet size

Table 2, indicates the aircraft fleet size that the airlines operated.

**Table 2: Aircraft fleet size operated by airlines**

| Fleet Size | Frequency | Percent |
|---|---|---|
| 1-9 | 4 | 25.0 |
| 10-19 | 2 | 12.5 |
| 20-29 | 2 | 12.5 |
| Above 30 | 2 | 12.5 |
| No response | 6 | 37.5 |
| **Total** | **16** | **100.0** |

The aircraft fleet size varied greatly among the airlines that were surveyed with most of the airlines having a fleet size of less than 10.

### 4.2.4 Commercial arrangements

All the airlines that responded indicated that they entered into a commercial arrangement with other airline(s) as indicated in table 3.

**Table 3: Nature of airline commercial arrangements**

| Commercial arrangement | Frequency | Percent |
|---|---|---|
| Operating a joint flight | 12 | 57.1 |
| Buying seats in another Airline | 9 | 42.9 |
| **Total** | **21** | **100.0** |

Operating a joint flight with another airline (57.1%) was the most preferred commercial arrangement entered into by the airlines compared to buying seats in another airline (42.9%). Most of the airlines that the African airlines have entered commercial agreements with were mainly from Europe and USA. There was also a high level of commercial agreements amongst the African Airlines themselves.

### 4.2.5 New international markets ventured into

Table 4 shows how many airlines ventured into international markets over the last one year.

**Table 4: Airlines that opened new destinations**

| | Frequency | Percent |
|---|---|---|
| Yes | 9 | 56.3 |
| No | 4 | 25.0 |
| No Response | 3 | 18.8 |
| **Total** | **16** | **100.0** |

Slightly over half (56.3%) of the airlines that responded indicated that they had ventured into a new market in the past one year. This is in contrast to 25% who did not. Three airlines did not indicate if they had entered into new international markets in the past one year. The analysis indicated that most of the new international markets selected and entered into by the airlines were mainly in Africa.

**4.3 Challenges faced in selecting international markets**

A number of issues pose challenges to organizations when selecting international markets. Airlines like any other organization also generally face challenges in selecting international markets in which to operate. The researcher broadly categorized the issues into competition, organization, regulatory, customer, product and market related challenges. The researcher was interested in determining the extent to which these issues/variables posed a challenge to African Airlines in selecting international markets and also the choice of the mode of entry into that international market. This was measured in way of a five-point likert scale, where respondents were required to indicate to what extent they applied to selecting international markets.

The range was 'Very Large Extent'(s) to 'No Extent at all' (1). The scores of 'No Extent' and 'Small Extent' have been taken to present a variable which is a challenge to a small extent (S.E) to African airlines (equivalent to mean score of 0 to 2.5 on the continuous likert scale; ($0 \leq$ S.E $<2.5$). The scores to 'To Some Extent' have been taken to represent a variable that is a challenge to a moderate extent (M.E.) to the African airlines (equivalent to a mean score of 2.5 to 3.5 on the continuous likert scale; $2.5 \leq$M.E. $<3.5$). The score of both 'Large Extent' and 'Very Large Extent' have been taken to represent a variable, which is a challenge to a large extent (L.E.) to the African airlines (equivalent to a mean score of 3.5 to 5.0 on a continuous likert scale; $3.5 \leq$ L.E. $<5.0$). A standard deviation of $>1$ implies a significant difference in the extent to which the variable is a challenge among the airlines and vice versa.

The extent to which the various issues/variables posed as challenges is analyzed in the sections that follow. An analysis first of the challenges in selecting international markets has been done followed by the challenges in selecting the modes of entry into international markets. The analysis was based on the broad categorization of the issues/variables by the researcher into competition, organization, regulatory, customer, product and market related challenges.

### 4.3.1 Market related challenges

A number of issues were categorized as market related challenge. These included assessing market profitability, yield to be obtained from the market, establishing number of passengers connecting through the airline's hub, general market risk assessment and choosing appropriate method to assess profitability. Table 5 indicates how the airlines responded to the various issues/aspects that are market related.

**Table 5: Market related challenges in selecting international markets**

| Challenge | Mean | Standard Deviation |
|---|---|---|
| Assessing market profitability | 4.25 | 1.183 |
| Assessing the amount of yield from the market | 4.19 | 1.047 |
| Establishing the number of passengers connecting through the airline's hub | 3.88 | 1.360 |
| General risk assessment level of the market | 3.81 | .834 |
| Choosing how the market will contribute towards meeting the company's objective of profit | 3.69 | 1.138 |
| Choosing appropriate method for assessing the market's viability | 3.63 | 1.088 |
| Market proximity in terms of culture, distance, value orientations | 3.20 | .862 |

Airlines that responded indicated that almost all the aspects except one, in this broad market related category to a very large extent are challenges to airlines when selecting international markets. The mean score of the variables ranged from between 3.20 and 4.25. Assessing the profitability of the potential market was indicated as the greatest challenge with the highest mean score of 4.25 followed with assessing the level of yields (4.19), establishing number of passengers connecting through an airline's hub (3.88). The proximity of the market in terms of culture, distance and value of value orientations is a challenge to some extent. This aspect had the lowest mean score of 3.20. However, like assessing the general risk in the market, there were no significant differences among the airline respondents as was the case with all the other variables that had significant differences among the airlines as the stand deviations of all the variables except one were >1.

### 4.3.2 Product related challenges

Determining the appropriate product to be offered in the potential market was the only aspect that was categorized as product related.

**Table 6: Product related challenge in selecting international markets**

| Challenge | Mean | Standard Deviation |
|---|---|---|
| Determining the appropriate product to be offered in the market | 3.69 | 1.537 |

As indicated in table 6, this aspect had a mean score of 3.69 hence posing as a challenge to airlines when selecting international markets. However the variable attracted significant differences among the airlines that responded. Determining the appropriate product to be offered in the potential market may result from the fact that the airlines find it hard to assess the market in which they intend to operate but also fail to understand fully the needs of that market and hence offer a product does not meet the particular needs of that market.

### 4.3.3 Customer related challenges

Like in product related challenge, there was only one variable that was customer related as shown in table 7.

**Table 7: Customer related challenge in selecting international markets**

| Challenge | Mean | Standard Deviation |
|---|---|---|
| Assessing the level of customer sophistication in the target market | 3.63 | .957 |

Customer related aspect entailed assessing the level of customer sophistication in the potential market that had a mean score of 3.63 and hence causing a challenge to a large extent. However there were no significant differences among the airlines on this aspect as was in assessing the right product to offer in the market.

### 4.3.4 Regulatory Related Challenges

Another broad category of challenges that African airlines face in selecting international markets are regulatory in nature. Table 8 indicates the scores for the regulatory related variables.

**Table 8: Regulatory related challenges in selecting international markets**

| Challenge | Mean | Standard Deviation |
|---|---|---|
| Existence of regulatory tendencies by governments, civil aviation authorities and the airlines (BASA) in target market | 4.31 | 1.014 |
| Existence of tariffs/market barriers | 3.75 | 1.238 |
| Home government influence in choice of the markets that you will want to enter | 2.63 | 1.258 |

Regulatory frameworks are usually set up by governments, regional and national civil aviation authorities and even the designated national carriers in those countries. These regulatory frameworks do to a very large extent pose challenges to the African airlines when selecting international markets. This aspect had a mean score of 4.31. Existence of tariffs/market barriers had a mean score of 3.75, making it to a large extent also pose a challenge to the African airlines when selecting international markets. Home governments however have a somewhat influence on the African airlines choosing international markets. This variable had a mean score of 2.63. However, there were significant differences of >1 among the airlines in rating the specific aspects related to regulatory frameworks.

### 4.3.5 Competition Related Challenges

Assessing the level of competition generally in the potential market, to some extent posed a challenge to African airlines selecting an international market.

**Table 9: Competition related challenges in selecting international markets**

| Challenge | Mean | Standard Deviation |
|---|---|---|
| Market competitiveness in terms of introducing new products | 3.13 | 1.125 |
| Assessing the possibility of the market in attracting new airline operations | 3.06 | 1.124 |
| Market competitiveness in terms of availability of substitute means of transport | 2.81 | 1.167 |

As indicated in table 9, there were three aspects related to competition. These aspects had mean scores of between 2.81 and 3.13. Assesing how competitive the market is in terms attracting new products had the highest score (3.13) in this category. There were high significant differences among the airlines on these aspects.

### 4.3.6 Organization related challenges

Organization values and attitudes shape the direction that an organization takes in selecting international markets. Table 10 shows how the airlines that responded to this study indicated the extent to which specific variables related to their organizations are a challenge.

**Table 10: Organization related challenges in selecting international markets**

| Challenge | Mean | Standard Deviation |
|---|---|---|
| Organization value and attitudes towards entry into foreign markets | 3.31 | .793 |
| Human resources constraints to drive business in the target market | 2.94 | .854 |
| Past experience gained from entering other foreign markets in the past being a referral point | 2.94 | .998 |

Overall, the airlines that responded to this study found that aspects that are organization related do to some extent influence the selection of an international market. Organization value and attitudes towards entry into foreign markets had the highest mean score (3.31) in this category followed by human resource constraints and also past experience gained in selecting an international market that had mean score of 2.94 each. There were no significant differences on organization related aspects among the airlines that responded

### 4.3.6 Broad market selection related challenges

Table 11 shows how the various variables when categorized into market, product, regulatory, competition, organization and customer related challenges posed as a challenge to the African airlines in selecting international markets.

**Table 11: Broad summary challenges in selecting international markets**

| Broad Challenge | Mean | Standard Deviation |
|---|---|---|
| Market related | 3.81 | 0.356 |
| Product related | 3.69 | 1.537 |
| Customer related | 3.63 | 0.957 |
| Regulatory related | 3.56 | 0.855 |
| Organization related | 3.06 | 0.214 |
| Competition related | 3.00 | 0.168 |

Overall, market, product, customer and regulatory related issues/variables to a large extent posed a challenge to African airlines in selecting international markets. These issues had mean scores of between 3.56 and 3.81. Market related aspects had the highest mean score of 3.81 followed by product related (3.69), customer related (3.63) and regulatory related (3.56). On the other hand, organization and competition related issues to some extent posed a challenge to the African airlines in selecting international markets. The mean scores for these two broad issues were 3.06 and 3.00 respectively. Despite the differences in the number of variables in the various clusters/categories the ratings are indicative of the extent to which the various aspects pose as a challenge in the selection of international markets.

### 4.4 Challenges faced in selecting mode of entry

One of the objectives of this study was to determine the challenges that African airlines face in selecting a mode of entering international markets. The researcher therefore sought to know what challenges the African Airlines faced in selecting these modes. Respondents were therefore asked to indicate the extent to which a number of issues/variables were a challenge to choosing a mode of entry to international markets. The researcher categorized the issues/variables into broad categories of competition, entry mode, product, regulation, resource required and organization related challenges. The researcher also sought to know what entry modes, African airlines used in accessing international markets as at times challenges faced may depend on the mode of entry used. The findings are discussed in the ensuing sections.

#### 4.4.1 Methods used in entering international markets

Selecting an institutional arrangement, a mode for entering or expanding into an international market is one of the crucial strategic decisions of a business. A well chosen mode can enable a firm to gain a competitive advantage. Organizations therefore access international markets using different modes/methods to among other objectives gain a competitive edge. Respondents were asked to indicate which methods their airlines have used to enter international markets. Table 12 indicates how the various airlines have used various methods.

**Table 12: Airline entry modes to international markets**

| Entry Mode | Frequency | Percent |
|---|---|---|
| Using General Sales Agent (GSA) in that market | 13 | 26.0 |
| Direct operations (entry) | 11 | 22.0 |
| Buying space on an airline operating into a market | 11 | 22.0 |
| Partnership/strategic alliances with a national carrier | 9 | 18.0 |
| Partnership/strategic alliances with domestic carrier | 6 | 12.0 |

Most airlines indicated that they have at least used more than one method of entry. Use of General Sales Agents (GSA) had a relatively higher mention (13). Direct entry operations and buying space on an airline operating into that market had 11 mentions each. Entering into strategic operations with a national or domestic carrier in that market had 9 and 6 mentions respectively.

### 4.4.2 Entry mode related challenges

As indicated in table 13 almost all the variables except one that are related to the entry mode were to a large extent a challenge to the African airlines when selecting a mode of entry to an international market.

**Table 13: Entry mode selection related challenges**

| Challenge | Mean | Standard Deviation |
|---|---|---|
| Assessing the risk factors involved in the entry mode/General risk level of the entry mode | 4.13 | .915 |
| Assessing how the entry mode will contribute to increased number of passengers connecting through the airline hub | 3.93 | 1.033 |
| Determining the market share and profit targets that the airline wants to control in the target market | 3.75 | 1.183 |
| Assessing how the entry mode will contribute towards high yields to the airline | 3.60 | 1.056 |
| Determining the resources that firms want to devote to the entry mode | 3.44 | .814 |

Assessing the risk factors involved in the entry mode had the highest mean score of 4.13 followed by assessing how the entry mode will contribute to its network value (mean 3.93), determining its contribution to profitability (mean 3.75). Determining the resources to be allocated to the entry mode posed a moderate challenge (mean of 3.44).

### 4.4.3 Competition related challenges

There was one variable that was categorized as being competition related (Table 14).

**Table 14: Competition related challenge in selecting an entry mode**

| Challenge | Mean | Standard Deviation |
|---|---|---|
| Assessing how the entry mode will contribute towards making the airline more competitive in the market place | 3.86 | 1.027 |

This variable, assessing how the entry mode will contribute towards enhancing an airline's competitiveness was considered a challenge to a large extent at a mean score of 3.86 though with a relatively high significance difference.

### 4.4.4 Product distribution related challenges

There were two variables categorized under the broad category of product distribution related challenges.

**Table 15: Product distribution related challenges in selecting an entry mode**

| Challenge | Mean | Standard Deviation |
|---|---|---|
| Regulations on the type of equipment to be operated into the target market | 3.80 | 1.265 |
| Existence of distribution access barriers | 3.67 | 1.175 |

Table 15 indicates that the two aspects broadly related to product distribution were also found to be a challenge to a large extent. Regulation on the type of aircraft equipment to operate had a mean score of 3.80 while existence of distribution access barriers had a mean score of 3.67. The aspects equally attracted relatively high significant differences among the airlines that responded.

### 4.4.5 Regulatory related challenges

Like product related challenges, there were two aspects/variables that were categorized under regulatory related challenge as indicated in table 16.

**Table 16: Regulatory related challenges in selecting an entry mode**

| Challenge | Mean | Standard Deviation |
|---|---|---|
| Host government regulation in the entry modes to be used | 3.60 | .986 |
| The nature of exit barriers in the target market | 3.00 | .926 |

Host government regulation on the entry mode to be used had a mean score of 3.60 implying that it is to a large extent a challenge in the choice of the mode of entry. Nature of exit barriers in the host country mean rated at 3.00 plays a moderate challenge in the choice of mode of entry. There were insignificant differences on the ratings of these aspects by the respondents.

### 4.4.6 Organization related challenges

Variables that are organization related challenges were found to be of a challenge to some extent as shown in table 17.

**Table 17: Organization related challenges in selecting an entry mode**

| Challenge | Mean | Standard Deviation |
|---|---|---|
| Assessing how using entry mode affects the image of airline | 3.31 | .947 |
| Experience gained from using the entry mode in other foreign markets being a referral point | 2.80 | .862 |

Assessing how using entry mode affects the image of airline had a mean rate of 3.31 while experience gained from using a particular mode of entry in the past had a mean rate of 2.80. There were minimal significant differences among the airlines.

### 4.4.7 Resource related challenges

There was only one variable that was categorized as resource related challenge (table 18).

**Table 18: Resource related challenge in selecting an entry mode**

| Challenge | Mean | Standard Deviation |
|---|---|---|
| The competencies and skills required for entry modes to be used | 3.20 | 1.146 |

Human resource competencies and skills to be used in the entry mode were considered a moderate challenge. It had a mean rate of 3.20 with a high significant difference among the airlines that responded.

### 4.4.8 Broad summary challenges in selecting an entry mode

Table 19 shows how the various variables when categorized into competition, entry mode, product distribution, regulatory, resource and organization related challenges posed as a challenge to the African airlines in selecting an entry mode into international markets.

**Table 19: Broad summary challenges in selecting an entry mode**

| Broad Challenges | Mean | Standard Deviation |
|---|---|---|
| Competition related | 3.86 | 1.027 |
| Entry mode related | 3.77 | 0.271 |
| Product distribution related | 3.74 | 0.092 |
| Regulatory related | 3.30 | 0.424 |
| Resource related | 3.20 | 1.146 |
| Organization related | 3.06 | 0.361 |

The results show that competition, entry mode and product related variables to a large extent are a challenge in the choice of the mode of entry. They had mean scores of 3.86, 3.77 and 3.74 respectively. On the other hand, regulatory, resource required and organization related challenges were a challenge to some extent. They had mean scores of 3.30, 3.20 and 3.06 respectively. As mentioned in the market selection section, despite the differences in the number of variables in the various clusters/categories the ratings are indicative of the extent to which the various aspects pose as a challenge in selecting a mode of entry into international markets.

# CHAPTER FIVE

# DISCUSSION, CONCLUSION AND RECOMMENDATION

## 5.1 Introduction

This chapter discusses the findings gathered from the analysis of the data, as well as the conclusions reached. The chapter incorporates the various suggestions and comments given by the respondents in the questionnaires. Findings have been summarized alongside the objectives of the study, conclusions have been drawn from the study and the recommendations for action are also given.

## 5.2 Discussion

The aim of the study was to determine the challenges African Airlines faced in selecting international markets and the mode of entry into those markets. From the data analysis done, it was evident that some of the airlines in the Africa date back to the year 1932 while some are slightly more than 10 years old. Most of the African airlines operate both domestic and international markets. However, most of the international destinations that the African airlines operate were within Africa. By African airlines serving many African markets (within the continent) it is generally in line with a trend where airlines tend to venture into many regional (within a continent) destinations before they move to international markets. This could mainly be attributed to the markets being closer (short-haul distances). However compared to airlines from other parts of the globe, the rate at which the African airlines serve markets outside their continent is low.

The study indicated that most of the airlines had entered into new markets over the past one year. Most of these new destinations/markets the African airlines had opened were within Africa. This implied that there is still a lot of market potential within Africa. It also indicated the high yield that airlines get when operating to/from Africa. This also justifies the reason why other carriers from outside Africa have had their focus in Africa when thinking of expansion, as confirmed by AFRAA from the Conference they had in South Africa in December 2005. On the other hand however, this was an indicator that African airlines do not have the capacity to compete outside the African markets that are mainly long-haul sectors fairly because of tough market related conditions and the fact that on average most African airlines operate a fleet size of less than 10 aircraft that is mainly for short haul flights. This therefore leads to African airlines contribute a significantly low proportion of passenger numbers (36 million) compared to the global figure of 1.584 billion.

All the airlines indicated that they have in one way or the other entered into some commercial arrangement with another airline. Two thirds of the commercial arrangements entered into were operations of joint flights. Most of the commercial arrangements were with airlines from Europe and USA even though of recent some African airlines are also entering into agreements with airlines from the Middle and Far East. The former arrangement of entering into commercial arrangements with European carriers was mainly due to the close ties established during the colonial period while the shift to the Middle and Far East was mainly due to the emerging economic powerhouse of the Middle and Far East. However in a radical shift, there have been a lot of commercial arrangements among the African countries but cautiously due to fear of exposing their passengers to competitors.

African airlines find that the greatest challenge that they have to contend with in selecting an international market is to assess the profitability and the yield of potential of the market. This aspect was given a mean score of > 4. Offering the right product in the potential market is also a great challenge. These challenges were attributed to the fact that the African airlines have not been able to over time develop different models that can be used to assess the profitability and the risk levels of the potential markets. Porter, (1980) and Root, (1994) have indicated that developing such methods based on the cost logic versus methods based on the degree of marketing is never easy, as evaluation of an international market involves examining its intensity, recency, and relevance. It is a challenge to offer the right product (aircraft type, schedule timings, on board service) because of the limitations in the fleet that the airlines have, which are not modern.

Regulatory related aspects were also indicated as a major challenge facing the airlines. This is because of the fact that airline industry is highly regulated by respective governments, national and regional civil aviation authorities, and national carriers among others. Cavusgil,

(1985) and Johanson (1997) have indicated that market barriers like the Bilateral Air Service Agreements (BASA) that are more of a norm in the aviation industry can make access to foreign markets more difficult. Despite there having been a lot of liberalization in the industry, this liberalization has favoured the non African carriers who are well endowed with resources to mainly penetrate the African markets while they maintain a grip of the controls that make it difficult for the African carriers to enter their markets.

Like other organizations, the African airlines themselves pose a challenge in selecting international markets. Koch (2001) noted that every international market expansion process begins with the need to expand internationally. This need is based on an analysis of company objectives. As Johansson (1997) has argued, this analysis should be linked to a longer term strategic orientation. Most of the African airlines lack the need to expand internationally and hence have inadequate analysis of the company objectives that enhance their strategic orientation. This therefore posed a challenge to the airlines in selecting international markets.

A quarter of the airlines indicated that the main mode of entry used in entering an international market is through the use of General Sales Agent (GSA). In as much this is the preferred mode in the airline industry in general, African airlines find it easy to use this mode because it is relatively cheaper and one can link direct business from the GSA. The low use of strategic partnerships is mainly associated to the fact that they can be expensive in their nature like buying a stake in a domestic/national carrier. Further more other non African airlines might find it non value adding to enter into a strategic partnership with some African carriers.

In selecting the mode of entry to service an international market, the main challenge that was faced by the African airlines is assessing the risk factors associated to a particular entry mode (mean score of 4.13). It was also followed by assessing the number of passengers that mode is likely to increase through the airline's hub besides the market share that the mode would contribute. Past experience of using a particular mode does not pose major challenge. This is because a successful entry method in one market does not guarantee success in another. Choosing a mode that would give an airline a competitive edge is also a great challenge that was faced. This posed a challenge because of lack of developed models by the African airlines that would predict with accuracy the contribution of using different modes of entry.

Variables that are organization and resource related challenges were found to be of a challenge to some extent in selecting a mode of entry. Assessing how using a particular entry mode affects the image of an airline had a mean rate of 3.31. The impact of the entry mode on the image of the airline is not perceived as a major challenge to the African airlines mainly because of their limited operations within limited markets where they have not taken the issue of maintaining a positive image in all markets like the other global carriers. Experience gained from using a particular mode of entry in the past had a mean rate of 2.80. This was not treated as a major challenge because of the fact that most African airlines have not entered into many markets like is the case in the non African carriers.

Human resource competencies and skills to be used in the entry mode were considered as a moderate challenge. They had a mean rate of 3.20. The airline industry generally requires specialized competencies and skills that take long to train and also acquire to handle various functionalities of the airline service. This therefore could pose a challenge to the African airlines especially when they are expanding to markets where these skills are scarce and at times forced to import them at a relatively higher cost.

## 5.3 Conclusion

There are a number of key issues that can be concluded from this research. They relate to the contribution of the African airlines to the global traffic, their size, the markets that they enter into, the challenges they face in selecting international markets and also the challenges that they face in selecting the modes of entry into these international markets. These conclusions are summarized in the ensuing paragraphs.

Most of the African airlines operate both domestic and international markets. However, most of the international destinations that the African airlines operate are within Africa. This is generally in line with a trend where airlines tend to venture into many regional (within a continent) destinations first before they move to international markets. However many

African airlines have not been able to break out of the regional markets (within continent) as the non African airlines.

Most of the new destinations/markets the African airlines opened were within Africa. This is because there is a lot of market potential within Africa that has attracted other carriers from outside the continent whenever the airlines think of expansion. Most of the African airlines lack the capacity to compete outside the African markets that are mainly long-haul sectors because of tough market related conditions and the fact that on average most African airlines operate a fleet size of less than 10 aircraft that is mainly for short haul flights. This therefore led to African airlines contribute a significantly low proportion of passenger numbers (36 million) compared to the global figure of 1.584 billion.

In selecting international markets, African airlines found that the greatest challenge that they had to contend with was to assess the profitability, general risk, yield of the potential market. This is because of the lack of well developed models. Despite the fact that the industry is liberalizing very fast, African airlines are still bound by many regulatory tendencies that have hindered them to venture into international markets. Assessing the general risk of an entry mode and contribution of an entry mode to give an airline a competitive edge in terms of increasing market share were the greatest challenges that airlines faced in choosing a mode of entry.

### 5.4 Recommendation

Overall the contribution of African airlines in the global aviation industry is very minimal. This is attributed to the fact that the airlines besides other factors have small size fleets. Further more the airlines have not taken an overt step to go international. As a result they are left entering into markets that are only within the African continent (short-haul routes). In selecting international markets and modes of entry to the international markets, the airlines face a number of challenges that are mainly market, product and regulatory in nature. The researcher therefore recommends that the airlines conduct a thorough evaluation of their long term strategic orientation that would lead to design and development of meaningful strategic alliances for that is the only way they could overcome these challenges.

## LIMITATIONS OF THE STUDY

The study was presumed to be a census carried out on airlines that are members of IATA. Most of these airlines are mainly national carriers of the different African countries. These exclude other private carriers who might not be members of IATA but have also made attempts in entering international markets. This study also concentrated on scheduled carriers. Charter operators who have also entered into international markets may have been left out in the study.

## SUGGESTIONS FOR FURTHER RESEARCH

The researcher recommends that future studies be done to establish whether airlines from other parts of the world (Europe, USA/Canada, Middle and Far East) face similar challenges as airlines in Africa. There is also need to find out how the African airlines have handled the challenges that they face in selecting international markets and the mode of entry.

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# APPENDICES

## APPENDIX I - INTRODUCTORY LETTER

University of Nairobi
School of Business
Department of Business Administration
P. O. BOX 30197
NAIROBI

15 June 2006

Dear Respondent,

**RE: COLLECTION OF SURVEY DATA**

I am a postgraduate student at the University of Nairobi, at the Faculty of Commerce. In order to fulfill the degree requirement, I am undertaking a management research project on Airlines and Entering Foreign Markets. The study is entitled:

***"Challenges Faced by African Airlines in Selecting and Entering Internataioanal Markets"***

You have been selected to form part of this study. This is to kindly request you to assist me collect the data by filling out the accompanying questionnaire. Please e-mail it to vomwenga@hotmail.com or fax it to the student on fax number **254-020-243930** after filling it.

The information data you provide will be used exclusively for academic purposes. My supervisor and I assure you that the information you give will be treated with strict confidence. At no time will you or your organization's name appear in my report.

Your cooperation will be highly appreciated.

Thank you in advance.

Yours faithfully,

**Vincent O. Makori** — **Student**

**M. Ombok** — **Lecturer\Supervisor**

## APPENDIX II - QUESTIONNAIRE

### SECTION A

1. Name of airline_______________________________

2. Title of respondent

   (i) Supervisor ( ) (ii) Manager ( ) (iii) Director ( )

3. Year airline started operations____________________

4. Please indicate the number of destinations that your airline operates to:

   (a) Domestic (Within the country) ______________________

   (b) Within Africa (excluding domestic)______________________

   (c) To the Middle and Far East Asia ________________________

   (d) To Europe & North America__________________________

5. Number of aircraft fleet that the airline operates______________________

6. (i) Has the airline entered into any commercial arrangements with any other airline(s)?

   Yes ( ) No ( )

   (ii) If yes please indicate with which airline (s).

   a)______________________________ b)____________________________

   c)______________________________ d)____________________________

   (ii) Which among the following commercial arrangements has your airline entered into?

   a) Buying seats in another airline operating a flight ( )

   b) Operating a joint flight with another airline ( )

7. Has your airline opened a new destination/market for the past one year?

   Yes ( ) No ( )

8. If Yes, please indicate the new destination (s).

   (i) ______________________________________

   (ii) ______________________________________

9. Please indicate the estimated annual turnover of your airline in USD. ___________

10. Average number of passengers carried in the last one year___________________

## SECTION B

11. Below are a number of challenges that airlines face in selecting which international markets to enter. To what extent has the following posed as a challenge to your airline in selecting the latest market? ***Use X in the appropriate box***

| | **Challenge** | **(5) Very Large extent** | **(4) Large extent** | **(3) Moderate extent** | **(2) Small extent** | **(1) Not at all** |
|---|---|---|---|---|---|---|
| i) | Assessing how profitable the market is | | | | | |
| ii) | Choosing an appropriate method to use in assessing the market's viability and potentiality | | | | | |
| iii) | Assessing how the market will contribute towards meeting the company's objective of profit | | | | | |
| iv) | Assessing the amount of yield(s) from the market | | | | | |
| v) | Establishing the number of passengers connecting through the airline's hub | | | | | |
| vi) | Market proximity in terms of culture, distance, value orientations | | | | | |
| vii) | General risk assessment level (economic, political, and business) of the market | | | | | |
| viii) | Assessing the possibility of the market in attracting new airline operators (competitors) | | | | | |
| ix) | Market competitiveness in terms of introducing new products | | | | | |
| x) | Market competitiveness in terms of availability of substitute means of transport | | | | | |
| xi) | Organization value and attitudes support entry into foreign markets | | | | | |
| xii) | Human Resource constraints to drive business in the target market | | | | | |
| xiii) | Past experience gained from entering other foreign markets in the past being a referral point | | | | | |
| xiv) | Existence of tariffs/ market barriers | | | | | |

| | Challenge | (5) Very Large extent | (4) Large extent | (3) Moderate extent | (2) Small extent | (1) Not at all |
|---|---|---|---|---|---|---|
| xv) | Home government influence in choice of the markets that you will want to enter | | | | | |
| xvi) | Existence of regulatory tendencies by governments. civil aviation authorities and the airlines (Bilateral Air Service Agreements (BASA) in the target market | | | | | |
| xvii) | Determining the appropriate product (schedule, equipment, in-flight service) to be offered in the market | | | | | |
| xviii) | Assessing the level of customer sophistication in the target market | | | | | |

12. What other challenges has your airline faced in selecting international markets?

i)________________________________________________

ii)________________________________________________

iii)________________________________________________

iv)________________________________________________

v)________________________________________________

## SECTION C

13. Airlines access international markets using different modes/methods. Which methods has your airline used in entering international methods? Please tick the one (s) that may be applicable.

i) Direct Operations (entry) ( )

ii) Partnership/strategic alliance with a domestic carrier in that market ( )

iii) Partnership/strategic alliance with a national carrier in that market ( )

iv). Establishing a subsidiary in that market ( )

v) Using a General Sales Agent (GSA) in that market ( )

vi) Buying space/seats on an airline operating into a market ( )

14. Below are a number of challenges that airlines face in selecting which method they use in servicing international markets. To what extent have the following posed as a challenge to your airline in selecting the method of entering international markets?

*Use **X** in the appropriate box.*

| | **Challenge** | (5) Very Large extent | (4) Large extent | (3) Moderate extent | (2) Small extent | (1) Not at all |
|---|---|---|---|---|---|---|
| i) | Determining the resources that the firms want to devote to the entry mode | | | | | |
| ii) | Determining the market share and profit targets that the airline wants to control in the target market | | | | | |
| iii) | Assessing the risk factors involved in the entry mode | | | | | |
| iv) | Assessing how the entry mode will contribute towards high yields to the airline | | | | | |
| v) | Assessing how the entry mode will contribute increased number of passengers connecting through your hub | | | | | |
| vi) | General risk level (economic, political, and business) of the entry mode | | | | | |
| vii) | Assessing how an entry mode will contribute towards making the airline more competitive in the market place | | | | | |
| viii) | Assessing how using an entry mode affects the image of the airline | | | | | |
| ix) | Experience gained from using the entry mode in other foreign markets being a referral point | | | | | |
| x) | The competencies and skills required for the mode of entry | | | | | |
| xi) | Host government regulation in the entry modes to be used | | | | | |
| xii) | The nature of exit barriers in the target market. | | | | | |
| xiii) | Existence of distribution access (reservation/booking systems) barriers | | | | | |
| xiv) | Regulations on the type/nature of equipment (aircraft) to be operated into the target market | | | | | |

15. What other challenges has your airline faced in entering international markets that it has selected?

i)______________________________________________

ii)______________________________________________

iii)______________________________________________

iv)______________________________________________

v)______________________________________________

16. Please share any other issues that you may have regarding selecting and entering of foreign markets for your airline.

______________________________________________

______________________________________________

______________________________________________

______________________________________________

**Thank you for taking your time to complete this questionnaire.**

## APPENDIX III- OPERATIONAL DIMENSIONS OF MARKET SELECTION AND ENTRY MODE SELECTION CHALLENGES

***1. Selection of International Markets***

| Broad Dimension | Expanded Definitions | Related Questions |
|---|---|---|
| **Market** | • Does the airline face any problem in assessing the potential of a market<br>• Do the various methods used in assessing the market potential pose any problems to the firm<br>• Is it difficult to assess the extent to which the selected market will contribute to organization objective of profit<br>• Does proximity/distance- psychic distance affect the selection of the market<br>• How does the risk of the market in terms of politics, economy, and business affect the selection of the market<br>• What network value does the market add to the existing markets served by the firm | 11i-11vii |
| **Competition** | • How competitive the market is in terms of terms attracting new airline operators<br>• How regular are new airline products (increase in frequencies, new aircraft, in-flight features) introduced in that market<br>• How easy is it to identify the available substitute means of transport<br>• To what extent can alliances (current and potential) pose a challenge | 11viii-11x, 13 |
| **Organizational** | • Do the organization values and attitudes support entry into foreign markets<br>• Does bad past experience gained from entering other foreign markets being a referral point in deciding a market to enter | 11xi-11iii |
| **Regulatory** | • Does the existence of government regulation in the market pose a challenge<br>• Do what extent does the host government influence the choice of markets to enter<br>• How significant is the existence of exit barriers an impediment<br>• How significant is the existence of tariffs<br>• Are there Bilateral Air Service Agreements | 11iv-11vi |

| Broad Dimension | Expanded Definitions | Related Questions |
|---|---|---|
| | (BASA)<br>• What challenges do the Bilateral Air Service Agreements (BASA) create | |
| **Product** | • To what extent is the assessment of the right product that will be offered in the market a challenge | 11xvii |
| **Customer** | • Do what extent is assessing the level of customer sophistication a challenge | 11viii |

*2. Selection of Mode of Entry into International Markets*

| Broad Dimension | Expanded Definitions | Related Questions |
|---|---|---|
| **Market** | • How is the process of assessing an entry mode is profitable a challenge<br>• To what extent does choosing a method to use to assess the viability of an entry mode a challenge<br>• Do what extent does assessing the entry mode's contribution towards meeting the company objective of profit<br>• Does the mode of entry contribute towards high yields to the firm<br>• To what level does the chosen entry mode lead to an increase in the number of passengers connecting through your airline's home hub<br>• What is the general risk level (economic, political, and business) of the entry mode | 14ii-14vi |
| **Competition** | • To what level does the entry mode enhance the competitiveness of the airline in the market | 13, 14vii |
| **Organizational** | • How does the choice of an entry mode become a challenge to the image of the airline<br>• How does bad past experience gained from using a particular entry mode become a challenge when used as a referral point<br>• Does the size of the organization in terms of (turnover) have a significant impediment on the choice of entry mode | 14i, 14viii-14ix |
| **Resources** | • Do the availability or non availability skills and | 14i |

| Broad Dimension | Expanded Definitions | Related Questions |
|---|---|---|
| | competencies of staff (pilots, cabin crew etc) on the choice of entry mode pose any challenge | |
| **Regulatory** | • To what extent does government regulation become a challenge in the choice of entry mode<br>• To what extent does the existence of exit barriers pose a challenge in the selection of mode of entry<br>• To what extent does the existence of tariffs pose a challenge in the selection of mode of entry<br>• To what extent does the existence of regional trade regulations pose a challenge | 14xi-14xiv |
| **Product** | • To what extent does the existence of distribution access barriers (reservation systems) a challenge<br>• How does the existence or non-existence of aircraft equipment a challenge | 14xiv, 14xvi |

## APPENDIX- IV- IATA AFRICA AIRLINE MEMBERS

1. Kenya Airways
2. Ethiopian Airlines
3. Air Botswana
4. Air Senegal
5. South African Airways
6. Virgin Nigeria Airways
7. Egypt Air
8. Air Mauritius
9. Cameroon Airlines
10. Air Tanzania
11. Air Zimbabwe
12. Air Malawi
13. Air Burkina
14. Rwanda Air Express
15. Air Madagascar
16. Air Gabon
17. Air Ghana
18. Sudan Airways
19. Tunis Air
20. Royal Air Maroc
21. Air Seychelles
22. Aero Zambia
23. Afriqiyah Airways
24. Air Algerie
25. Air Namibia
26. Bellview Airlines
27. Com Air
28. Inter Aviation Services
29. LAM- Air Mozambique
30. Libyan Arab Airlines
31. Nationwide Airlines
32. Royal Swazi National Airways
33. SA Airlink
34. Eritrean Airlines
35. Gambia Int'l Airlines
36. TAAG- Air Angola
37. Precision Air

*Source:* IATA website- www.iata.org- *as at March 2006*