CHALLENGES OF GLOBALIZATION AND THEIR IMPACT ON KENYA AIRWAYS LIMITED

BY

GICHIRA C. N.

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DECLARATION

This Management Research Project is my original work and has not been submitted for a degree qualification in any other University

Signed: …………………………… Date: ……………………….

GICHIRA C.N.

D61/P/8430/04

This Management Research Project has been submitted for examination with my approval as the University Supervisor.

Signed: ………………………………… Date: …………………..

DR. JOHN YABS

Lecturer, Department of Business Administration

DEDICATION

To my husband Patrick,

and my children, Patricia and Sam

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ABBREVIATIONS

KQ - Kenya Airways Ltd

KLM - Royal Dutch Airlines

IATA - International Air Transport Association

IOSA – IATA Operational Safety Audit

IT - Information Technology

JKIA – Jomo Kenyatta International Airport

AFRAA – African Airlines Association

RIVATEX – Rift Valley Textiles

KICOMI – Kisumu Cotton Mills

MOUNTEX – Mount Kenya Textiles

ATM – Automated Teller Machines

R&D – Research & Development

ARVs – Anti Retrovirals

AIDS – Acquired Immune Deficiency Syndrome

USA – United States of America

BPO – Business Process Outsourcing

ABSTRACT

'The world is becoming a global village', so the adage goes.

It is a fact that the world has truly become a global village. Globalization has presented to the world new ways of doing things. This has affected not only how organizations conduct their business but also how they compete and ultimately survive. Effects of distance have been greatly minimized. Advances in information technology have enabled communication across global office networks as though they were next door.

The objectives of this study were to establish the challenges that globalization poses to one such organization and their effects on the business though a case study, which targeted the senior management staff of Kenya Airways Limited. 15 out of the targeted 17 members were interviewed, which was a response rate of 88%. The study findings indicate that the greatest challenges of globalization to an airline like Kenya Airways Limited are competition and rapid technological changes. The competitive force of global airlines originating from the developed world was described as forceful.

In spite of the challenges brought about by globalization, 67% of the respondents described globalization as good for business. The remaining 33% described it as a threat to business. The researcher noted that none of the respondents described globalization as irrelevant to business.

Recommendations arising from this research are to be found in chapter 5.

CHAPTER ONE - INTRODUCTION

1.1 Background

A fundamental shift is occurring in the world economy. Countries of the world are moving away from national economies that have been relatively self-contained entities, isolated from each other by barriers to cross border trade and investment; by distance, time zones, and language; by national differences in government regulation, culture, and business systems. The countries are moving towards a world in which barriers to cross-border trade and investment are tumbling, perceived distance is shrinking due to advances in transportation and telecommunications technology, material culture is starting to look similar the world over, and national economies are merging into an interdependent global economic system. The process by which this is occurring is commonly referred to as globalization (Hill, 2005).

The growing integration of economies and societies around the world has become an important aspect in the new world order representing one of the most influential forces that are determining the future course of the world. Globalization has had significant impacts on all economies of the world with major effects on efficiency, productivity and competitiveness (Intriligator, 2002).

1.1.1 **The concept of globalization**

The concept of globalization has only recently (20th Century) been popularized through the spread of multi-national enterprises. The roots of globalization however, date back to the 16th century when European nations struggled to establish empires worldwide. In late 18th century many European firms went global by setting up manufacturing facilities in their colonies to extract raw materials. In mid 19th Century, many US firms begun to globalize by setting up business plants in various parts of the world. By the 1970s, the process of globalization was quite entrenched marked by tremendous movement of people, knowledge, capital, goods, services and technology across boarders.

In the sphere of economics, globalization is reflected in the increasing acceptance of free markets and private enterprise as the principal mechanism of promoting economic activities. Therefore, globalization is generally seen as the process of broadening and deepening of inter-relationships in international trade, foreign investment and portfolio flows (Wignaraja, 2001).

Previous episodes of globalization (1960s and 1970s) took place in an environment where many barriers to full integration were in place. The 1980s and 1990s have witnessed a rapid integration of the global economy through reduction in trade barriers. Increasing globalization has come about due to the easing of policy barriers to trade and factor flows and from technical change, which have lowered the costs of trade and factor flows. Recent episodes of globalization have, thus, been characterized by unprecedented fall in production costs, reduced trade barriers, increased trade, and access to new sources of supply, mobile labour and capital, increased competition and stringent quality requirements and rapid transmission of technology across the borders.

The accelerating pace of economic integration among nations is expected to change future direction of social relations and customs, consumption patterns and lifestyles as well as values, religion and identity. At the political level globalization is expected to further see the spread of pluralist systems, multi-party democracies, free elections, independent judiciaries and political unions. Globalization, thus, holds greater promise for empowering multinationals in creating larger markets both locally and internationally and by promoting greater international understanding, linkages and partnerships. However it also threatens to widen the gap between the rich and poor, leaving some poor countries and regions increasingly behind due to collapse of some local corporations if poorly managed, (Hill, 2005).

Its growing importance is captured in such indices as trade in goods and services, capital flows in different forms, foreign investment, technology transfer, operations of transnational enterprises, business travel and communications, migration and remittances.

At the business organization level, adaptation to the changing environment of international trade has become a critical success factor. The effects of globalization have cut across all spheres of existence at the national, corporate and individual level. Previously, only multinational organizations embraced international outlook geographically and otherwise. With the world becoming a global village, organizations cannot underplay the need to think globally irrespective of their geographical operation. This is because competition has come to their doorstep (Aosa 2006). Challenges brought about by globalization and economic liberalization necessitate a change of strategy. Organizations that failed to change their mode of operation in the light of increased global competition have either ceased to exists, or continue to struggle with no competitive edge. Many businesses sought o increase their worldwide representation mainly through establishment of departmental offices across national borders or through franchising.

1.1.1. Globalization in the airline industry

Prior to globalization and economic liberalization wave of the 1990s, most airlines were state-owned and served as flag carriers for their mother countries linking the nations' domestic economy with major foreign trade partners. The national carriers were sheltered from industry competition through government regulation, protection and subsidy which accorded them undue advantage over other privately owned airlines (The Economist, Jun 93). Landing rights were granted through bilateral agreements between nations. A scenario that ensured nil threat from new entrants into these markets as priority on bilateral agreements was given to the national carriers. Barriers of entry included high airport charges, allocation of inconvenient arrival and departure times and poor connections flights.

As world's GNP grew, demand for air travel increased. Air travel grew by over 400% between 1970 and 1990, (The Economist, March 1993). As the wave of globalization crept in, in the early 1990's**,** the airline industry was not spared. Airlines also faced challenges associated with globalization. As world markets opened to liberalization, businesses strove to become more competitive through restructuring, and cost cutting to increase efficiency. Many organization executives eliminated executive classes in their travel and adopted economy classes in the name of cost cutting. Subsequently, airline yields and profits started to dwindle. Many airlines such as British Airways and Kenya Airways Limited resulted to restructuring for survival in the last 5 years.

Today, the airline industry is characterized with turbulence. Anticipated terrorist activities and threats following the September 11, 2001 attack have not made the situation any better. Aosa (1992) noted that environmental turbulence tended to pose challenges to management. Porter (1980), suggests that in order to remain relevant, a business has to continuously monitor its internal and external environment utilizing organizational strengths and internal capabilities in dealing with threats and challenges posed by the external environment. Security is therefore a major concern that airlines are addressing worldwide.

Thiga (2003), in a more relevant study of strategic responses of airlines operating in Kenya in the face of changed environmental conditions reaffirms that the airline industry is characterized by turbulence and individual airlines have to adapt to this turbulence or otherwise cease to exist. He quotes Lufthansa Airlines as one firm that failed to cope with this turbulence locally.

Although airline industry is global by its very nature, effects of globalization have come about due to fall of bilateral agreements and in coming of open sky policy. In the light of this, competition among airlines is becoming increasingly global. The challenge lies in how to achieve competitive advantage in the emerging global arena. Airlines must formulate and implement strategic responses to counter the challenges of globalization and their impact on business.

Kenya Airways Limited is the Kenyan National carrier operating scheduled flights throughout Africa, Europe and Asia. Its hub is Jomo Kenyatta International Airport in Nairobi. It was established in 1977 after the break up of the East African Community and subsequent disbanding of the jointly owned East African Airways. Its IATA designator code is KQ – a designator the airline has had to change from KA in line with informal recognition of the airline as KQ globally. The Kenya Airways Group consists of Kenya Airfreight Handling Limited (KAHL), Africa Cargo Handling Limited (ACHL), and Ken cargo Airlines International Limited.

The airline has faced a number of challenges since its inception, most of which have been intensified by the impact of globalization. Some of the internal challenges included bureaucracy, inculcated 'parastatal' culture among staff, overstaffing, process inefficiency and poor schedule integrity. External challenges included intense regional and international competition, inability to cope with rapid technological changes, old fleet, and soaring fuel costs. In the midst of all these challenges, customer expectations were shifting upwards, further complicating the already competitive scenario.

For Kenya Airways Limited to survive in the globalization era there was need for a complete turnaround of the organization's management and operations. Some of the immediate responses adopted by Kenya Airways Limited to counter these challenges included restructuring and privatization, fleet modernization, network expansion through strategic alliances and embracing of e-commerce (Kenya Airways Limited Financial Report 2005/06) and service benchmarking through the vision, ‘to be a world class network Airline’.

Globalization is a permanent process in international business environment. As such, Kenya Airways Limited will have to keep re-engineering its processes, and formulate sound strategies that will enable it to take advantage of the opportunities while countering the threats within the global business environment. Kenya Airways Limited can only remain competitive through maximizing on its competitive advantage.

Evans (1987) is of the view that as the operating environment changes; a more pronounced transformation of the business landscape lies ahead. Therefore, it is imperative that organizations witfully address the challenges of globalization and minimize their impact on the business

1.2. The Research Problem

The airline industry plays a significant role in economic development of any country. Alexa (2003), has observed that air travel remains a large and growing industry. It facilitates economic growth, world trade, international investment and tourism; therefore, it is vital to the globalization taking place in other industries. A country such as Kenya that is heavily dependent on tourism and agricultural export for its foreign exchange earnings, Kenya Airways Limited as the national carrier, is a critical necessity in the equation. The airline also offers direct employment to many people internationally. Its contribution to the Kenyan economy cannot be underestimated.

Globalization has led to stiff competition in many sectors of the economy and has made firms change their approach in order to survive. Ansoff (1987), notes that the environment is constantly changing making it imperative for organizations to continuously adapt to the dynamic environment in order to succeed. Kibera and Waruingi, (1998), have observed that organizations in Kenya have had to adopt various strategies in dealing with the challenges brought about by globalization and liberalization. Local firms that failed to adjust to a globalized economy are non existent today. It is as a result of constant adaptation to the external environment that companies like KQ have survived in this era of globalization and continue to excel in profitability.

KQ has been in the limelight for exemplary performance at a time when other companies in the airline industry such as Sabena, and Air France are folding operations in the region. The study therefore intended to seek answers to the following research questions:

(i) What challenges is KQ facing as an organization as a result of globalization?

(ii) What is the impact of these challenges to KQ as a business organization?

1.3. Objectives of the Study

This study addressed two objectives:

i) Established the challenges that face Kenya Airways Limited in a globalized economy

ii) Determined the impact of these challenges on Kenya Airways Limited

1.4. Importance of the study

The results of this study may be of benefit to the following:

i) Future researchers and current scholars in using the study as a source of reference on the challenges and successful responses to globalization. It can also act as a basis for further research.

ii) All the firms operating in the airline industry in Kenya. The identification of the challenges and their impact on the business. The study can provide survival tools for any organization faced with similar challenges.

iii) Government agencies and policy makers may use the results to formulate positive national policies on a framework that is relevant and sensitive to the forces influencing the transport industry in Kenya and the East African region.

iv) Other public institutions undergoing privatization can use this as a referral document on expected business challenges in a competitive environment.

v) Investors in their decisions on stability and potential of the airline.

CHAPTER TWO - LITERATURE REVIEW

2.1 Introduction to Globalization

Various economists have endeavored to explain what the whole concept of globalization entails; Globalization refers to the shift toward a more integrated and interdependent world economy (Hill, 2005). It also refers to the strategy of approaching worldwide markets with standardized products (Johnson and Scholes, 2002).

Globalization is one of the key concepts of our time. In the twenty-first century it is no longer just about translation and localization. Effective globalization requires an awareness of technologies and how they are adapted around the world. It also calls for the ability to differentiate products from competition that can originate anywhere in the world, from Austria to Zimbabwe. Even as new technologies provide emerging opportunities for companies looking to go global, they also disrupt our ability to conduct business in accustomed channels (Ray 2005).

In both political and academic discussions, the assumption is commonly made that the process of economic globalization is well under way and that this represents a qualitatively new stage in the development of international capitalism. Globalization of business is bringing in seasoned competitors from the developed countries into the growing markets of the Third World. Consequently, the survival of local enterprises and entrepreneurs is being threatened. Third World managers need to develop a global mindset in order to take advantage of the changed new world order in business.

Globalization has been rolled back before but only under extraordinary circumstances. The costs today for the world economy, were a sizeable number of countries to turn their back on global markets, could exceed even those incurred in the 1930s given the decline in the cost of international transportation and communication, the spread of global production networks, and the progress made in drawing countries and regions once only marginally integrated into the world economy, more deeply into the global system. Countries, their governments, and their citizens have substantial investments in globalization. Significant costs have been sunk, making it less likely that the clock will be turned back. Contingency planning is always prudent, but extensive planning for the disintegration of international markets makes little sense if this is in fact an extremely remote possibility.

2.2 Need for Globalization

Two macro factors have been accepted as underlying the trend towards greater globalization. The first is the decline in barriers to the free flow of goods, services, and capital that has occurred since the end of World War II, crowned by economic liberalization in most countries of the world in the recent past, particularly third world countries. The second factor is technological change, particularly the dramatic developments in communication, information technology (internet), and transportation technologies (Hill, 2005). These factors have given goods, services, and capital unprecedented mobility. Developed countries have opened world markets to their goods and taken advantage of abundant, cheap labor in the South. Establishments of call centers in Asian continent and recently in Africa is a case in point on factor mobility brought about by globalization. The geographical distance has been underplayed.

As corporations established departmental offices in the most optimal locations worldwide, technology transfer became a necessity rather than an after effect. Production departments are located closer to source of raw materials, meaning that the corporation source of labour is in the use local community. The workforce has to be trained to be more efficient and productive in the factories. The same case applies to all other departments which may be located anywhere in the world, all connected through advanced information technology.

2.3. Challenges of Globalization

Globalization has remained a hotly debated topic among social activists, intellectuals, business leaders, policy makers and politicians. Anti-globalization protestors have turned up at almost every major meeting of a global institution to protest that globalization is resulting in job losses as local industries are under attack from foreign competition, downward pressure on wage rate of unskilled workers due to migration of low wage manufacturing jobs offshore. However, supporters of globalization accuse critics of missing the point about free trade – the benefits outweigh the costs. Free trade results in countries specializing in production of those goods and services that they can produce most efficiently, while importing all others. Although job losses may occur to a few individuals within the nation, but free trade benefits the whole national economy (Hill, 2005).

The challenge to national economies remains how to capitalize on the opportunities for growth and development afforded by globalization while at the same time minimizing the risks. In an obvious sense this means following appropriate policies: stable macroeconomic policies, prudent financial policies, and sound regulatory policies. But the appropriate policies are easier to describe than to implement. Their specifics are likely to vary over time. The more fundamental problem is thus how to develop institutions with the capacity to determine appropriate policies, implement them, and stick to them until circumstances change.

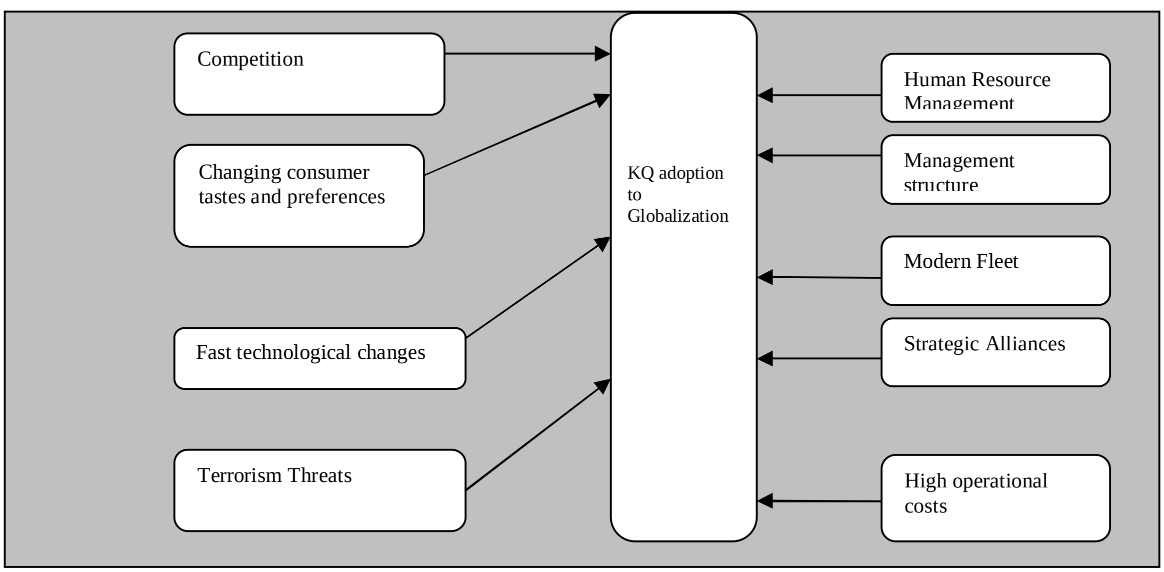
In Kenya today and the world over, businesses have found themselves in a more competitive environment. Organizations are dealing with a more informed consumer whose source of information is only a fingertip away - internet; consumer tastes and preferences are becoming more advanced, movement of capital and other factors of production is freer and at reduced costs. The result is a pressurized organization that has to change its operations, products and service offerings to suit the changing demands. The airline industry continues to face a number of challenges since the terrorism attack of September 2001 in the USA. Most African airlines that depended on traffic from this region held back in their development plans like fleet expansion (African Aviation Journal, Dec, 2001). Recent trends however indicate that the industry is on the road to recovery.

In a conference held by African airlines under African Airlines Association (AFRAA), it was noted that entry of richer and more technologically advance foreign airlines into the African aviation market due to globalization and trade liberalization is threatening the national carriers and if left unchecked, this invasion might send African airlines into their graves. (Daily Nation, 6th Dec, 2005). The fight for global dominance is real and benefits larger airlines that have what it takes to venture into new markets.

The main Challenges facing the airline industry can be summarized as intense competition and high operating costs as organizations try to have representation in various major cities of the world. The main challenge, however, is one of survival in an increasingly unattractive industry.

The success story of Kenya Airways Limited is not without its own challenges, both internal and external, as evidenced in the ensuing framework. The key success factor lies in company's response to the challenges so as to survive and remain competitive in the global arena.

External Environment Internal Environment



Source: Author

As part of re-adjustment to the new environmental conditions, Kenya Airways' management undertook rationalization of human resource, fleet modernization, process improvement initiatives and also entered into a Strategic Alliance with KLM Royal Dutch Airline in order to take advantage of KLM's efficient management processes, shared route coverage and technology transfer, as well as accessing external markets, thereby enhancing her competitive advantage.

From the aforementioned, it is clear that there is a chance in globalization, albeit it needs to be handled in a practical and clever manner. In her keynote, *The Globalization Landscape,* Susan Mills described how globalization should be viewed as "just another business process" to be integrated into the larger enterprise business transformation effort. What is required is a holistic view of all of our customers' business processes, end-to-end.

2.4 Impact of Globalization to Organizations

On a global scale, world trade was growing at a robust rate of about 9 per cent in 2006 and the trade expansion has been broad based. Although Asian economies continue to dominate the dynamism in global trade, many developing countries have managed to expand their exports at double digit rates owing to strong global demand for raw materials. (World Economic Forum Report, 2007). Organizations are therefore experiencing stronger demand of their products and services in line with the robust world demand.

What many people associate with globalization are the sharply increased private capital flows to developing countries. Foreign direct investment flows have continued to increase across countries especially in the emerging market economies. Net private capital flows to emerging markets is expected to decline in 2007 partly due to reduced demand for external financing, as many economies have been running current account surpluses for several consecutive years and have accumulated vast amounts of foreign reserves, thus becoming less dependent on international capital, at least cyclically in the short run (World Economic Forum Report, 2007). Companies have also increased their offshore investments in foreign equities markets through wider distribution of equity management companies as world economies opened up.

Workers move from one country to another partly to find better employment opportunities. Most economic migrations occur between developing countries. The flow of migrants to advanced economies is likely to provide a means through which global wages converge. There is also the potential of skills to be transferred back to the developing countries and for wages in those countries to rise. Organizations have therefore found themselves sourcing for human resource across national boundaries resulting in cultural diversity within an organization that influences organization policies. There is freer movement of people across continents in search of jobs.

Information exchange is an integral, though often overlooked aspect of globalization. For instance foreign direct investment brings not only an expansion of the physical capital stock, but also technical innovation. More generally, knowledge about production methods, management techniques, exports markets and economic policies is available at very low cost and it represents a highly valuable resource for the developing countries.

Globalization has had far reaching effects in the local national economies. The effects are trickling down to organization and individual level; At the local scene, firms that failed to rise to the challenges of a globalized economy were faced out of business; while importation of second-hand clothes, 'mitumba' flourished in the 1990's, it was doom for both cotton growers and textile industries in the country as competition became too hostile. Also, firms in the sugar industry such as Muhoroni Sugar and Chemelil Sugar were unable to lower their prices to counter competition due to their high costs of production. Other local business organizations that failed to change their mode of operation in the light of these challenges and therefore were faced out of business include RIVATEX and KICOMI. The failure to adapt to changing circumstances led these firms to business closure. However, some firms adjusted their operations and are still operational today. Among them is Kenya Airways Limited – a local multinational company that was ailing prior to liberalization but today continues to report exemplary performance each year.

It is therefore evident that effects of forces of globalization have been numerous, with widely varying effects on Kenyan firms. Stiff and intense competition is now a reality for firms in the Kenyan market whether operating at international level or at the smallest scale.

2.5 Organization Response to Challenges Globalization

The following are some of the responses that local and international firms operating in Kenya have had to adopt in the face of global competition;

Closures and liquidations

As a result of liberalization many firms in Kenya collapsed due to the stiff competition posed by the entry of foreign firm e.g. KICOMI, RIVATEX and MOUNTEX all went under as a result of their inability to anticipate, plan for and respond to liberalization and globalization. The entry of the global trade in used clothing (mitumba) sent these companies to their graves. The firms had no time to readjust their operation and structure to face competition in a liberalized and global environment.

Strategic Alliances; Mergers and Acquisitions

Doz & Hamel (1998) note that strategic partnerships have become central to competitive success in fast changing global markets. They are logical and timely response to intense and rapid economic activity, technology and globalization.

To ensure profitability, survival and growth, some local firms opted to enter into alliances with foreign firms in order to face the challenges of competition and changing market demands. Examples include the former milling giant and perennial loss maker; Unga Group Limited and Seaboard Corporation of Kansas U.S.A. Kenya Airways entered into a strategic alliance with KLM, Royal Dutch Airlines so as to pool competencies and function as a larger and more forceful entity thereby enjoying a larger network and management expertise. These are necessary for survival in the global airline industry.

Kenya Airways in their website www.kenya-airways.com have clearly affirmed that international airline traffic has expanded in recent years, and a new development has swept the industry – extensive cooperation among international carriers in the provision of service. Alliances ease passenger connections between the carriers. Airlines seem to be taking a collaborative approach rather than competitive strategy in dealing with effects of globalization in their industry.

Relocation of businesses

Liberalization has brought about stiff competition and price wars. Firms that have been unable to cope have opted to relocate some operations to countries where factors of production can give them a competitive advantage. Proctor and Gamble, Johnson & Johnson shifted their manufacturing operations from Kenya to Egypt where costs are said to be over 50% lower. With globalization, a firms manufacturing plant can be in one continent, while the marketing division is in another continent and Research and Development is in yet another country or continent thereby tapping optima global resource necessary to lower operational costs.

Business Process Re-engineering

Business Process Re-engineering is done to eliminate wastage and improve on efficiency in production by paying attention to the internal structures and systems. A number of firms have undertaken this process in order to be in a better position to face the global competition. Leading firms are investing the latest affordable information technology in manufacturing; KBL has implemented computerized bottling system while BAT has introduced its intelligent packaging system. Kenya Airways has also undertaken automation of business processes to enhance efficiency.

Diversification of product portfolio

As a result of globalization, local firms have been forced to diversify their product portfolio to cope with competition, maintain market share, enter into new markets and seal off any unexplored market segments that foreign competitors may come to exploit. E.g. Brookside Dairy started with milk production in tetra packs eventually adding Yoghurt and flavored milk to their range. In the oil industry, services stations have moved beyond having just filling stations to facilities such as restaurants, ATM services and convenience stores.

Research and development

Globalization has caused firms to invest heavily in R&D so as to come up with world-class competitive products and services. A good example is the pharmaceutical industry where there's pressure to come up with better drugs before competitors come in to fulfill the need. A local company -Cosmos Pharmaceuticals, has started the manufacture of generic ARVs for AIDS patients. This is in anticipation of the entry of Indian bases generic drug manufacturers.

Business Process Outsourcing (BPO)

Kenyan companies have however not made any serious entry into the BPO market. This particular market presents the industry of the future for third world countries. Siemens, for example, announced that it is moving 2,000 jobs to Hungary. The Internet had made it very easy to export jobs. Cases of American hospitals that send X-rays to India for analysis by Indian doctors are now common. A study of American companies concluded that they had created 2.8 million jobs abroad against 5.5 million jobs in the US in the last 10 years. Going by these figures, there is urgent need to consider what this segment offers and then take advantage. It is an opportunity that globalization presents for Kenyan companies.

CHAPTER THREE - RESEARCH METHODOLOGY

3.1. Research Design

The research problem was best studied using case study method. This method was suitable for the study because it aimed at giving in-depth account of the challenges that Kenya Airways Limited is facing in a globalized economy and an in-depth account of how the company has been responding to these challenges.

Kothari (1990) states that case study involves complete observation of a social unit; a person, institution – in this case Kenya Airways Limited, family, cultural group or the entire community and emphasizes depth rather than breadth of a study.

3.2. The Population

The population of interest in this study consisted of all the departmental heads and their immediate deputies who are involved in the day to day operations of the airline.

3.3. Sampling and Sample Size

Being a case study, the total population of all heads of department was targeted.

3.4. Data Collection

The researcher used both primary and secondary data to carry out the study. Secondary data was obtained from existing records at Kenya Airways Limited including corporate strategic plans, and other organization reports such as annual reports, media communication and the company's website. Primary data was collected by interviewing 15 top managers of the company. A questionnaire was used as interview guide. (see appendix II). Although the interview guide included few structured questions, effort was made to administer more unstructured questions. The structured questions were used in an effort to compare responses. The unstructured questions were used to extract as much relevant information and felt response from the respondent without feeling held back in revealing of any information.

The researcher conducted personal interviews. A letter of introduction (See appendix I) was issued to the respondent prior to the interview session, and as prerequisite to an interview.

3.5. Data Analysis

Considering the qualitative nature of the study and the envisaged response as per the interview guide, The data was analyzed using qualitatively content analysis. The researcher concurs with Mbogo, (2003) and Nyamweya, (2004) who employed this kind of approach in describing it as useful in gaining fresh insight even in what was thought to be known. Where applicable, however, figures were presented in tabular form, and a percentage or mean obtained quantitatively.

CHAPTER FOUR - DATA ANALYSIS AND INTERPRETATION

4.1. Introduction

This chapter presents analysis and findings of the research. From the study population target of 17 respondents, 15 managers were interviewed from across the departments of the organization. This constituted 88% response rate.

Table 1. Globalization in relation to a company's survival and growth

	Frequency	Percent
Good for business	**10**	**67**
Threat to business	**5**	**33**
Irrelevant to business	**0**	**0**
Total	**15**	**100**

The respondents were asked to describe globalization in relation to a company's survival and growth. Majority of them comprising of 67% said that globalization is good for business, 33% said that it is a threat to business. It was worth noting that none of the respondents described globalization as irrelevant to business. All concerned were certain that globalization has had an impact on business practices.

4.2. KQ Success Factors contributing

The researcher also asked the respondents to give the factors that have contributed to KQ's success in the last decade. The most repeated factor with 80% repeat rate as the leading success factor was that of commercialization and subsequent privatization of the airline. Although this happened over a decade ago, majority of the respondents expressed the view that this marked the birth of a new KQ in the minds of clients and a lot was expected from this change in terms of service improvement, re-engineering of operations, and eventual profitability. KQ seemed to dance well to the tune of change, as the respondents expressed great satisfaction in the way the airline has operated since then.

Other positive change factors that respondents enumerated included:

- Visionary management with a shared clear vision
- Increased competitiveness through strategic partnerships such as KQ and KLM thereby gaining access to a global route network and sound management experience
- Improved customer satisfaction through flight modernization, enhanced customer service, and schedule integrity.
- Technological adaptation i.e. consistently adopting the latest technological advancements especially in their aircraft carriages such as state-of-the-art Boeing 777, system improvement and automation of business processes. In the last decade, KQ has been voted Best User of Information technology in Kenya by Computer Society of Kenya.
- Increased efficiency through strategic initiatives aimed at cost cutting
- General improvement in the political environment has also increased passenger numbers for both business and leisure travel.

4.3 External changes affecting KQ's operations and their effect

Respondents expressed such changes as:

- Stiff competition as foreign airlines take advantage of open sky agreements. In June 2007, Kenyan airspace witnessed entry of Virgin Atlantic, a privately owned airline with a diverse route network across the globe. Similarly, the Kenya airspace has witnessed aggressive penetration by carriers of the gulf region such as Qatar Airways. This has affected KQ's yield due to price competition by the penetrating airlines.

- Rapid technological changes that make it imperative for KQ to keep adapting to new technology not only in her internal systems of operation, but also on the type of fleet in operation, and the level of technical competence of her staff.. KQ has resulted to outsourcing and leasing of operating tools such as computers to avoid liability of quick obsolescence.

- As more operators penetrate the Kenyan airspace, respondents have noted an increase in staff turnover due to the intensive robbing of KQ's trained, talented and experienced manpower particularly the crew. Some of the new operators have a fuel advantage given their origin.

- A need to continuously train staff in order to retain competitiveness. The effect of this was reported as KQ having to make heavy financial commitments to train commercial and technical staff.

- Foreign carriers are buying into African airlines in an attempt to penetrate the underserved African market. This is diluting the operation of JKIA as a hub in Africa as such airlines gain access to direct routing through code sharing.

- Increased promotion of internet bookings and less dependency on travel agents as distributors of airline seats. The airline has actually been reducing the commission paid to travel agencies for bookings in an effort to promote Ecommerce.

4.4 Major challenges facing KQ due to Globalization

The respondents seemed to have a similar ranking of the first three challenges as follows:

- Stiff competition
- Rapid technological change
- High prices of jet fuel compared to some competitors particularly those from the gulf region

Other sighted challenges included:

- Increased customer demands as clients get enlightened on superior product offerings.
- Rising client expectations as the airline competes at a global level

Please explain how KQ has responded to the challenges identified above:

Respondents stated that Kenya Airways has made quite a number of positive adjustments in order to address the identified challenges. Some of these responses include:

- Entering into collaborative alliances that are aimed at offering the customer increased choice through increased frequencies on a particular route and wider network coverage such that passengers get the opportunity to fly to routes that could not have been previously possible. KQ has also been able to offer its customers Flying Blue loyalty programme in partnership with KLM.

- KQ has also embarked on route expansion through flying to new destinations within the African continent and Eastern Europe. Some of the quoted new routes include Bamako Mali, Dakar Senegal and Istanbul Turkey etc. KQ also offers very competitive prices in some of these routes. KQ also purchased a 49% stake in Precision Air, a Tanzanian carrier.

- KQ was reported as having conducted extensive customer care training programmes across the company in an effort to guarantee world class service and increase competitiveness. Kenya Airways has formally launched its Kshs. 540M Leadership Centre in Embakasi that will be available for use even by other companies in the Kenya business enterprise.

- On rapid technological changes, KQ was reported as being quite abreast with technology in spite of the rapid nature of its change. KQ internal processes are automated via integrated systems. A modern form of internal communication using internet and intranets makes communication quite effective.

- Training on technological aspects of the company, particularly pilots are extensively conducted outside Kenya. Local trainings on technological issues are carried out as well.

- KQ was among the first airlines to comply with IATA requirement for Electronic ticketing.

- On the core business, KQ continues with fleet modernization programme that witnessed the delivery of the first state-of-the art- Boeing 777 and 6^{th} Boeing 767 aircrafts in 2004. KQ continues to actualise the delivery of more state-of the-art aircrafts in line with her fleet expansion programme.

- On fuel, KQ continues the practise of fuel hedging in order to mitigate the risk of increasing jet fuel prices.
- In order to concentrate on the core business, KQ was reported as having taken up business process outsourcing in areas such as IT support.

Table 4. How well KQ has responded to the challenges

	Frequency	Percent
Very well	13	87
Fairly well	2	13
Poorly	0	0
Total	15	100

The majority of respondents as shown by 87% said that KQ has responded very well to the challenges, while a proportion of 13% said it is responding fairly well.

The respondents who said that KQ has responded to the challenges very well said that it is because KQ is increasingly addressing the challenges on the major areas.

Are there some challenges that KQ has not responded to and what does KQ plan to do about it/them?

30% of the respondents responded in the affirmative stating the challenge of staff mobility after training still persists. The rest of the respondents said that KQ had adequately addressed all the challenges.

4.5 Effects of competition on KQ's marketing strategy

Most respondents concurred in that KQ's vision; 'to consistently be a safe and profitable airline that guarantees world class service' was seen as a change in strategy to not only provide efficient service but one that meets global standards.

On competition KQ is expanding her route network by launching new destinations such and collaborating with other airlines through strategic alliances. The anticipated associate membership the SkyTeam will be quite an advantage in that KQ will be promising its clients global standards. KQ is now accepted as a global brand.

Some reported that KQ and Northwest Airlines have a cooperative marketing Agreement together with KLM, to target the American market.

KQ has been promoting reduced fares and holiday packages in an effort to attain price advantage and retain customer loyalty and attract new customers.

The respondents also pointed out the strategy of strategic partnerships and alliances. As international airline traffic expands, airlines have resulted to extensive cooperation among international carriers in the provision of services. KQ has code-sharing agreements with Air France on European and North American markets from Nairobi. Others include Precision Air, Rwandan Air and Korean Air.

4.6. Technology as a competitive tool

Most respondents highlighted the prestigious Awards that KQ has won with regard to use of technology and service improvement. KQ has been voted Best User of Information Technology by the Computer Society of Kenya, as well as being voted East African Most Respected Company on several occasions. In 2006, KQ also won the prestigious African Aviation Award awarded by the *African Aviation Magazine*. These are all suggestive of

KQ's use of technology for competitive advantage.

On the specific notion, 80% of respondents mentioned that safety is one key consideration that any airline must have right in order to remain competitive. KQ was the first carrier in the sub-Saharan to achieve IOSA safety certification.

On the core business, respondents also highlighted the undertaking by KQ to modernize its fleet by operating state-of-the-art Boeing 777 since 2004 and recently Embraer 170 planes all in the name of maintaining global competitiveness.

4.7. Strategic partnerships and their benefits

The respondents were asked to give the benefits that KQ aims to achieve in her strategic partnerships and her commitment to meeting the standards required to become a SkyTeam Associate member. SkyTeam is the first global airline alliance created with the customer in mind in 2000.

The respondents highlighted the following benefits;

- Enlarged network that will lead to improved flight connection
- Access to more member lounges worldwide
- Opportunities for passengers to earn more miles on every SkyTeam airline
- Easy connections with the extensive worldwide hub network
- Enhanced airport check-in procedures.

- Customers are guaranteed quality SkyTeam service on all member airlines

All these go into elevating KQ brand internationally because clients from other countries whose airlines are members of SkyTeam will easily recognize KQ as a reliable airways thereby enhancing KQ global competitiveness.

What, in your view, is the future of KQ as a global competitor?

Majority of the respondents stated that KQ is a globally competitive organization and globalization presents massive opportunities for her growth and expansion only if she maintains the current trend of prompt response to the challenges that come with it.

CHAPTER FIVE - RECOMMENDATIONS AND CONCLUSIONS

5.1 Introduction

From the analysis and data collected the following discussions, conclusions and recommendations were made. The response was based on the objectives of the study.

5.2 Discussions

The response rate was good at 88% of the targeted respondents.

From the study, the researcher established that globalization in relation to a company's survival and growth was found to be good for business by the majority of respondents. It was also found that KQ's business/operating environment in relation to globalization was very stable as the airline continuously improves its competitiveness.

The researcher identified the three major challenges of globalization to be:

- Intense competition
- Rapid technological changes.
- Escalating fuel costs

KQ has responded to these challenges through, improvement on quality of service in line with customer expectations, joining competitive partnerships and alliances KQ-KLM strategic partnership, committing to achieve standards required to become a SkyTeam Associate member, consistently adopting the latest technological advancements especially in their aircraft carriages for example Boeing 777.

The benefits that KQ aims to achieve from the envisaged Associate membership of SkyTeam were found to be; increased client base as more fliers classify KQ as a reliable airline, enhance service offerings from other airlines which are members of SkyTeam, elevated KQ brand internationally, and increased loyalty through earning of more mileage from member airlines.

The researcher found out that the factors that have contributed to KQ's success in the last decade have been visionary management, increased competitiveness through strategic partnerships and alliances, improved customer satisfaction, on-time technological adaptation, increased efficiency and general improvement in the political and economic environments.

The level of competition faced by KQ locally and abroad was found to be very competitive. However, KQ's commitment to its vision, '*To Consistently be a Safe and Profitable Airline that Guarantees World Class Service*' ensures that the airline is highly competitive. KQ's commitment to global standards is evident in her recent commitment to achieve the standards required to become a SkyTeam Associate Airline.

5.3 Conclusion

KQ is facing a lot of challenges associated with globalization. The airline has however managed to stay ahead of these challenges through prompt response and quick technological adaptations that offer her cutting edge competitiveness in the global marketplace.

5.4 Recommendations

The airline should ensure continued prompt response to these challenges so as to remain relevant in business and competitive in the global arena.

Folly-Kossi, the Secretary General of AFRAA (2005) expressed the need for regulation in order to alleviate ‘the intensive on-going robbing of the African air transport industry of its trained, talented and experienced manpower’ (The Africa Monitor, Tuesday September 13, 2005 pg B2). KQ, as the holder of the prestigious African Aviation award, should spearhead the lobbying among African airlines for the enactment of such regulation.

5.5. Limitations of the study

This was a case study. As such, the research findings cannot be used for generalization of the airline industry.

5.6. Areas for further research

Further research on the same should be carried out in the airline industry in order to generalize findings.

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Appendix 1: Introductory Letter – Request for research interview

Charity Gichira
Faculty of Commerce
School of Business,
University of Nairobi

July, 2007

Dear respondent**,**

I am a postgraduate student at the University of Nairobi, School of Business, pursuing a course leading to a masters degree in Business Administration (MBA). In order to fulfill the degree requirement, I am conducting a case study on ***“challenges of globalization and their impact on Kenya Airways Limited”***

As a top manager in the company, you have been selected to form part of this study. This is to kindly request to be accorded a few minutes of your time, to conduct the interview. I will liaise with your personal assistant to slot me at a time convenient to you. The information obtained will be used exclusively for academic purposes and the findings of the study, shall, upon your request be made available to you.

Thank you in advance for your valued contribution to my academic pursuit.

Yours faithfully,

<u>Charity Gichira</u>
MBA Student

Appendix 2: Questionnaire

Section A

1.a) Name of respondent ………………………………………. (Optional)

b) What department are you responsible for? ………………………

c) How long have you served in the airline industry?

Below 5 years	( )	Over 5 below 10	( )
Over 20 years	( )	10 to 20 years	( )

2. How would you describe globalization in relation to a company's survival and growth?

Good for business	( )
Threat to business	( )
Irrelevant to business	( )

Section B

3. In your opinion, what factors have contributed to Kenya Airways Limited's success in the last decade? Briefly explain each factor.
4. What external changes have taken place in the last decade that have affected Kenya Airways Limited's operations?
5. Briefly explain how each change has affected Kenya Airways Limited operations.
6. What are the major challenges facing Kenya Airways Limited due to globalization? How would you rank these challenges from the most critical?

7. How would you describe the level of competition faced by Kenya Airways Limited locally and abroad?

   Very competitive ( )

   Competitive ( )

   Fairly competitive ( )

8. How has the competition affected Kenya Airways Limited's marketing strategy?

Section C

9. Please explain in detail how Kenya Airways Limited has responded to the challenges identified in (6) above
10. Are there some challenges that Kenya Airways Limited has not responded to?
11. If so why, and what is Kenya Airways Limited intending to do in future about these challenges?
12. To what extent does the company utilize technology as a competitive tool?
13. In your view, how well has Kenya Airways Limited responded to the challenges?

    Very well ( )

    Fairly well ( )

    Poorly ( )

14. Strategic Alliances are almost synonymous with Kenya Airways Limited in Kenya, What benefits accrue to Kenya Airways Limited on this strategic choice?
15. Recently Kenya Airways Limited joined Sky team. What benefits does the airline aim to achieve from this membership?

16. What, in your view, is the future of Kenya Airways Limited as a global competitor?

Thank you very much for your response.