COMPETITIVE STRATEGIES ADOPTED BY LOCAL AIRLINES IN KENYA

BY

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DECLARATION

I, Christine Okwach, hereby declare that this project is my own work and effort and that it has not been submitted anywhere for any award.

Signed: …………………………………. Date: …………………

CHRISTINE OKWACH

D61/62732/2010

This Project has been presented with my approval as the university supervisor

Signed:………………………….. Date:…………………………

PROFESSOR MARTIN OGUTU
LECTURER,
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DEDICATION

For my husband Ambrose Sewe and my friends Atinya, Mary, Caro, Stella and Pauline for their special assistance.

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The staff of the Jomo Kenyatta Library at UON provided the opportunity to use the facilities especially in the MBA and the Electronic Library section. From these able staff I was able to access not only research reports from earlier MBA research findings but also scholarly publication from the wider academic sphere.

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ABSTRACT

This study had the objectives of determining the challenges of competition faced by local airlines in Kenya and establishing the competitive strategies adopted by local airlines in Kenya. The companies that made up the population for this study were fourteen out of which eight provided the responses used for the study through completing questionnaires. The findings indicated that main challenges that face local Kenyan airlines were the dominance of few competitors in the market, retaliation from competitors when an airline changes strategy, low cost services from competitors; price wars with competitors, strong brand name of competitors and wider branch networks of competitors. The least felt challenges were loss of customers to other airlines; competitors offering a wider range of services, the services offered by competitors being unique, loss of staff to competitors, challenges from the major customers and high costs of customers switching from a competitor to your airlines. The most used competitive strategies in response to the challenges were increased financing, big sales/price cuts, increasing presence in other countries, cost reduction, making the airline's product different from those of others, coming up with new services and improving product quality. The study recommends that the airlines should use modern technology to reduce the dominance of the market by few firms and reduce negative effects of competition by venturing outside the Kenyan market. Further, policy makers in Kenya can take affirmative steps to strengthen these local airlines to enables them compete fairly against the stronger international airlines.

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ABBREVIATIONS AND ACRONYMS

CAA	Civil Aviation Authority
EAC	East African Community
JKIA	Jomo Kenyatta International Airport
KA	Kenya Airways
KCAA	Kenya Civil Aviation Authority
KLM	Koninklijke Luchtvaart Maatschappij (Dutch airline)
KSF	Kenya School of Flying
UON	University of Nairobi
NAS	Nairobi Airport Services
VAT	Value Added Tax

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Competitive strategy provides a company with the actions to create offensive or defensive positions in an industry and thereby yield a superior return on investment. According to Porter (1985) a business should adopt a competitive strategy to secure a competitive advantage. Competitive advantage is anything which gives one organization an edge over its rivals in the products it sells or the services it offers. Drucker (1973) stated that management has no choice but to anticipate the future, to attempt to mold it, and to balance short-range and long-range goals.

The common theme in competitive advantage is value creation. For a long time, Kenya has had the privilege of being the gateway of Eastern and Southern Africa for Air travelers. This is despite facing major competition from neighbouring countries. This competition is considered good for it has focused on ensuring that Kenya remains at the top in the regional aviation business (KCAA, 2012).

Jomo Kenyatta International Airport (JKIA) in Nairobi is East-Africa's major hub, partly as a result of the successful privatization of Kenya Airways (KA) in 1996, which led to a strategic partnership with KLM of the Netherlands. The privatization of KA led the company quickly back to profit while vastly improving the quality of services and contributing to the development of Nairobi as a regional platform. KA the leading airline currently operates direct passenger flights to Amsterdam, London, Bangkok, Dubai, Hong Kong and Mumbai, in addition to twenty-one destinations in Africa. It also has cargo services to similar destinations, and provides ground services to over 25 companies, from baggage handling to cargo warehousing and aircraft maintenance. More than a dozen large European and Asian airlines also operate direct flights to Nairobi (United Nations, 2005).

The Government of Kenya updated the institutional framework in 2002 with the amendment of the Civil Aviation Act and the creation of the Civil Aviation Authority (CAA), which is in charge of the safety and technical regulation of civil aviation, the provision of air navigation services and the licensing of air services. The running of Kenya's airports, in turn, is in the hands of the parastatal Kenya Airports Authority. The private sector is, however, allowed to provide services within Kenya's airports (KCAA, 2012).

JKIA currently has a clear leadership as a passenger and cargo hub for East Africa. Its position could be further developed and strengthened however, with more private sector involvement in providing facilities and services. Passenger traffic exceeded 3 million people in 2002, a 30 percent increase from three years earlier. Cargo handling, in turn, reached 169,000 tons in 2002, a 45 percent increase from three years earlier. This is partly a reflection of the strong rise in shipments of horticulture products to Europe, which would not have been possible without frequent direct air links and handling facilities, including refrigerated storage and a dedicated cargo terminal (United Nations, 2005).

This lucrative scenario opens the aviation market to players within and out of Kenya with companies in and out of Kenya establishing stronger presence. The result is higher competition for business. To survive, the firms have to change with the dynamics of the industry (Porter, 1980). This, therefore, leads to the need to have in place strategies that will enable these firms to survive competitively in this increasingly getting harsher environment.

1.1.1 Competitive Strategies

Competitive advantage refers anything which gives an organization an edge over and above its rivals in the products or services it sells. Competitive strategy then provides such a company with the actions to create offensive or defensive positions in an industry resulting in a superior return on investment. According to Porter (1985) a business should adopt a competitive strategy to secure a competitive advantage.

The management of an organization has no choice but to anticipate the future, to attempt to mold it, and to balance the short-range and the long-range goals. The common matter in competitive advantage is value creation. However, there is not much agreement on value to who, and when. One school of thought argues that value is created by favorable terms of trade in product markets, that is, sales in which revenues exceed costs. A second school of thought holds that advantage is revealed by “super-normal” returns. A third school of thought ties advantage to superior stock market performance (Drucker, 1973).

Barney (2002) argued that a firm experiences competitive advantages when its actions within a given industry or market create economic value and when few competing firms are engaging in similar actions. According to Barney, competitive advantage is tied to performance. A firm obtains above-normal performance when it generates greater-than-expected value from the resources it employs. However, Porter (1996) argues that competitive strategy is simply about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value. Competitive strategy refers to strategic positioning which can be based on customers’ needs, customers’ accessibility, or the product mix. Strategy therefore is the creation of a unique and valuable position involving a different set of activities (Spulber, 2009).

1.1.2 Kenyan Aviation Industry

Air transport has is a significant mode of transport in Kenya and is set to remain so in the country as long as tourism thrives and Kenya Airways the main airline continues its growth. Air transport is the second most important transport services in Kenya in terms of its share in the total value of output from the transport sector (Ikiara et al, 2010).

The aviation industry in Kenya is highly competitive and heavily dominated by foreign investors. It comprises of the national airline (Kenya Airways), over fifteen foreign commercial airlines with regional offices in the country, twenty-seven other foreign airlines which operate in the country but without regional offices, and thirteen other local private airlines. The leading international airlines including British Airways, Air France, KLM, Swissair, Alitalia and South African Airways fly in and out of Kenya. This is an indication that Kenya imports a substantial amount of air travel services. Some of the firms offering charter services in Kenya are owned by locals, often in partnership with foreign investors (Gitau, 2011).

The privatization of KA and contracting of its management to a British firm remarkably changed the manner of competition in the Kenyan aviation industry. The airline has not only increased its flights under the partnership with KLM but is increasingly making larger profits and has staff with higher morale than previously, a factor that has led to considerable improvement in the quality of services. The airline's control of the domestic and regional market is increasing rapidly as more and more passengers use it therefore increasing its volume of business and its share of the market (Omondi, 2006).

Some of the challenges that have adversely affected the performance of the aviation sector as a whole include shortage of trained personnel, high duty and VAT on aircraft and spare parts, inadequate facilities at airports, depreciation of the Kenyan shilling, and high inflation rates that have made tickets costly and therefore reducing demand for air transport, and high operational costs resulting from high jet fuel prices and landing costs. Stiff competition is also a serious challenge to many firms in this industry. Despite these bottlenecks and challenges, some companies like Kenya Airways have had impressive performance. Partnerships and regional agreements that could enhance the country's capacity to export air transport services and the removal of obstacles that stand in the way of provision of more competitive services are some of the measures being taken to facilitate faster growth of Kenya's air transport (Ikiara et al, 1999).

1.2 Research Problem

Competitive strategy is about how a company competes in a particular business environment through gaining a competitive advantage in a distinctive way. A competitive strategy results from how an organization responds to its competitive environment. Achieving competitive advantage strengthens a business and gives it a better position within the business environment. The competitive strategies result in a strategic positioning which gives a firm the competitive edge (Porter, 1985).

Several reasons can be cited for this development in Kenya’s mainstream aviation. The demand in the aviation market has stemmed the need to bring modern aircraft; pilots are becoming a real issue for smaller airlines as they are just as much in demand by the national airlines and eventually migrating to wide-bodied planes and to fly further abroad; the return of KQ in numbers to the Mombasa route and to Malindi and Kisumu has eaten into the client base of smaller local jet airlines, and the at times with extraordinary special offers to fly. Further, tourism is not doing well, inflation is running high, and the shilling is low, which makes procurement of spares and external services like insurance or maintenance a lot more expensive in shilling terms. Such an environment poses great challenges to the local airline operators (Thome, 2011).

A study by Omondi (2006), conducted survey study on the competitive strategies used by the airlines in Kenya to gain competitive advantage in the dynamic Kenyan Aviation Industry. This study indicated that leasing of aircraft and exiting loss making routes were the popular strategies used by 82% of the firms among other strategies. Another survey study by Gitau (2011) focused on the effect of strategic implementation on the performance of firms in the aviation industry concluding that strategy affected performance of the studied firms. Other studies like Buhalis (2003) showed that the airline industry in the world in particular has fostered a dependency on technology for their operational and strategic management. Sundaram & Al-Aali, (2011) found that in 2009, Emirate Airlines reported phenomenal growth and astounding profits while their rivals faced agonizing losses. They found that the formulation and implementation of appropriate strategies, like operational strategies, generic strategies, intensive strategies, and diversification strategies led to the exceptional performance, profitability, and success of Emirate Airlines.

On the Kenyan scene, since the study by Omondi (2006) a lot has changed in the industry for example a lot of new companies have come into the market, the number of the international airports and airlines have risen therefore changing the competitive environment. The study by Gitau (2011) did not provide answers to the question of how the firms in aviation industry strategically respond to these current challenges. This research gap led to the need for this study which addressed these unanswered questions: What challenges faced the local firms in the Kenyan aviation business environment? What competitive strategies had these local companies adopted in the face of these challenges?

1.3 Research Objectives

This study had the following two major objectives:

i. To determine the challenges of competition faced by local airlines in Kenya.

ii. To establish the competitive strategies adopted by local airlines in Kenya.

1.4 Value of the Study

This study is important by providing an update of the knowledge concerning the competitive environment and the strategies used by the local firms in Kenyan aviation industry. It is known that strategy keeps changing across different times and across different competitive environments. What was known on the competitive strategies used by Kenyan aviation industry over five years ago is not likely to be today and may be not in the current scenario. The findings of over five years ago within the competitive environment then may not be generalized for the industry today. This research gives an insight on how strategies have changed in the face of the current competitive challenges facing local firms in aviation industry.

This study provides the most up to date evidence concerning the competitive challenges facing local firms in Kenyan aviation industry and the strategies that are being used. Researchers and other scholars can then use the findings as basis for conducting further research on relevantly related topics. For instance, a researcher may want to find out if competitive strategies used some time ago can still be applied today. Those who will be carrying out similar research may use the findings to present their arguments.

To the firms in the aviation industry this study provides an objective understanding of the forces of competition facing them. They can therefore know how to deal with such environmental forces and come up with actions and reactions that will in effect make them more agile in the face of competition. This research provides a diagnostic and an evaluative study of the aviation industry in Kenya whose findings can be used by the firms in this industry to shape their strategy.

Other organizations and investors who might want to newly venture into the aviation industry or those who might want to expand their investment can have the required understanding of the market forces and possible ways of response. The current increasing collaboration within the East African Community (EAC), the increasing desire of Kenyans to widen participation in the aviation market, the increasing strategic importance of Kenya in the East African region can lead to increasing international and local investment in this Kenyan industry. This research provides direction to such investors and potential investors in the aviation industry.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature on competitive strategy in aviation industry. The section 2.2 discusses the concept of strategy as presented by various scholars of strategic management. Section 2.3 discusses the challenges of competition that firms must face as they conduct their business. The challenges can emanate from similarity of products, new entrants into the market, and powerful suppliers among others. Section 2.4 discusses various models that provide suggestions of how the firms can respond to these challenges.

2.2 Concept of Strategy

Strategy consists of the analysis, decisions and actions an organization undertakes in order to create and sustain competitive advantages. This definition captures two main elements that go to the heart of strategy. First, the strategy of an organization entails three ongoing processes: analysis, decisions, and actions. That is, strategy is concerned with the analysis of strategic goals (vision, mission, and strategic objectives) along with the analysis of the internal and external environment of the organization and leaders must make strategic decisions (Porter, 1980).

These decisions broadly address two basic questions: What industries should we compete in? How should we compete in those industries? These two questions are answered through conducting a thorough analysis of the possibilities of new entrants, existing rivals, customers, suppliers and substitutes and matching them with the results of the internal environment. Last are the actions that must be taken. Firms must take the necessary actions to implement their strategies. This requires leaders to allocate the necessary resources and to design the organization to bring the intended strategies to reality (Thompson, Strickland & Gamble, 2005).

Second, the essence of strategy is how firms can outperform others. Thus, managers need to determine how a firm is to compete so that it can obtain advantages that are sustainable over a lengthy period of time. That means focusing on two fundamental questions: How should we compete in order to create competitive advantages in the marketplace? For example, managers need to determine if the firm should position itself as the low-cost producer, or develop products and services that are unique which will enable the firm to charge premium prices-or some combination of both (Porter, 1985).

Managers must also ask how to make such advantages sustainable instead of highly temporary in the marketplace. That is: How can we create competitive advantages in the marketplace that are not only unique and valuable but also difficult for competitors to copy or substitute? (Drucker, 1973).

Porter (1985) argues that sustainable competitive advantage cannot be achieved through operational effectiveness alone. Most of the popular management innovations of the last two decades-total quality, just-in-time, benchmarking, business process reengineering, outsourcing all are about operational effectiveness. Operational effectiveness means performing similar activities better than rivals. Each of these is important but none led to sustainable competitive advantage, for the simple reason that everyone is doing them. Strategy is all about being different from everyone else. Sustainable competitive advantage is possible only through performing different activities from rivals or performing similar activities in different ways.

2.3 Challenges of Competition

According to Porter (1985) and Porter and Millar (1985), a firm develops its business strategies to obtain competitive advantage over its competitors. A firm does this through responding to five primary forces: the threat of new entrants; rivalry among existing firms within an industry; the threat of substitute products or services; the bargaining power of suppliers; and the bargaining power of buyers. Any firm falling into any of the five categories poses competitive challenge to the firm in question.

Competitors can cut into an organization's market buy pricing their products too low in effect forcing an organization to react in a similar manner. The reduction can result from new superior technology (like Automated Teller Machines), superior value chain management or bare price wars. Though this reduction in prices may be beneficial to the customers, the bottom line of the organization is threatened (van Heerde, Gijsbrechts & Pauwels, 2005).

Challenges arise due to similarity in organization products in that all the organizations tend to have the same products. In fact if an organization comes up with a new product it is easily imitated by the other competitors thus making it difficult to provide products unique to the given organization. Those that manage to differentiate their products and have a competitive advantage over others as the cause a shift in customer loyalty. Some organizations come up with superior customer care, customer attraction and customer intimacy tactics that also shake the customer base of competing organization (Thompson et al, 2005).

New organizations coming into the market provide serious challenge to both new and established ones. These new competitors usually locate in exactly the same region and target the same market therefore not only increasing competition but effectively cutting into an organization's market. For instance in the finance industry a microfinance institution like a cooperative can easily sweep away a big share of borrowers of a commercial bank especially if the terms of lending of the cooperative are more customer-friendly than what the commercial bank provides. Further, serious challenges can come from substitute providers. For instance mobile phone money transfers, large suppliers and large customers (e.g. those who take large credit values). Mobile phone money transfer is a formidable force in the banking industry and has forced banks to reposition themselves in the face of such challenge (Porter, 1980).

Organizations have to play the market to avoid the always evident threat of being taken over whether in a friendly or hostile manner. The bidding firm may in light of its strategy and strength decide to buy out competition. The target organization will therefore have to provide a reaction whether to allow the takeover or provide resistance till such maneuvers expire if they don’t end in a hostile takeover. If not takeovers, such aggressive moves like outright poaching of high quality staff, starting legal tussles to simply disorganize competitors (Thompson et al, 2005).

Organizations always face threats from other organizations that produce a wider product range. The organizations providing a wider range of products are like a supermarket while the organizations offering few products are like single shops. The customers will be more attracted to the supermarket therefore threatening the profitability and existence of the few-product provider. To survive, such an organization has to change strategy (Ansoff, 1965).

2.4 Competitive Strategies

2.4.1 Porters Generic Strategies

Porter (1980) proposed the following three generic competitive strategies: Cost Leadership that means offering the lowest costs products to the entire market; Differentiation which is offering highly unique products (as perceived by the customer) to the entire market; and focus (offering products which serve the needs of a niche segment of the market). These responses were a summary of the possible responses to the situation in the Five Forces model.

Porter (1980) argues that the basic premise of the generic strategies was that for a firm to be successful it had to compete based on one of two sources of competitive advantage: cost or differentiation, i.e., by differentiating its products from its competitors with respect to quality and performance. Porter also proposed that a firm needs to select its strategic target: either offering a product to the entire market ("market-wide"), or offering a product for a particular market segment. Airlines also apply these strategies when competing among each other (Omondi, 2006).

2.4.2 Ansoff's Diversification Strategies

Diversification is part of the four main growth strategies defined by the Product/Market Ansoff matrix. Diversification is a form of corporate or business level strategy for a company that seeks to increase profitability through greater sales volume obtained from new products and new markets. Diversification usually requires a company to acquire new skills, new techniques and new facilities (Ansoff, 1965).

Diversification depends on the subjective interpretation of "new" market and "new" product as perceived by customers and not managers. There are three types of diversification: concentric, horizontal, and conglomerate. Concentric diversification arises when there is a technological similarity between industries, which means that the firm leverages its technical know-how to gain some advantage (Davis, 2007).

In horizontal diversification a company adds new products or services that are often technologically or commercially unrelated to current products but that may appeal to current customers. Conglomerate (or lateral) diversification occurs when a company markets new products or services that have no technological or commercial synergies with current products. The products, though, may appeal to new groups of customers. Among airlines diversification can occur when an airline spreads across more than one route or provide a diversity of services to a diversity of customers (Davis, 2007).

2.4.3 Wilde and Hax's Delta Model

The Delta Model is a customer-based approach to strategy. The model is based on customer economics. This model centers on the customer. The efforts the organizations have to focus on configuring high value-added propositions to customers which should be both creative and unique.

The company wins not by beating the competition but by achieving Customer Bonding. This stage is recognizable by a relationship based on transparency, fairness, and which produces long term benefits for all those involved (Wilde & Hax, 2009).

2.4.4 Kim and Mauborgne's Blue Ocean Strategies

This strategy enables opening up to new alternatives and does not look at competition in terms of confrontation with partners and rivals, but a unique forms of non-conflict cooperation. This strategy requires that airlines open their mindsets to include the customers, the suppliers and the complementors as key constituencies. Finally the model requires granular customer analysis by airlines in order to complete sensible customer segmentation. The ideal being, in fact, the consideration of each single customer individually with his/her own needs and wants (Wilde & Hax, 2009).

Blue Ocean describes the wider, deeper potential of market space that is not yet explored. Like the "blue" ocean, it is vast, deep, powerful, in terms of profitable growth, and presenting infinite possibilities. Under blue ocean strategy, there is scarcely an attractive or unattractive industry because the level of industry attractiveness can be altered through companies' conscientious efforts. As market structure is changed by breaking the value-cost tradeoff, so are the rules of the game (Kim & Mauborgne, 2005).

Blue Ocean Strategy is a way through which airlines can make the competition irrelevant by creating a leap in value for both the company and its customers. In Blue Oceans, demand is created rather than fought over like in the Red Ocean. There is ample opportunity for growth that is both profitable and rapid. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set (Kim & Mauborgne, 2005).

2.4.5 Business Acquisition Strategies

Mergers and acquisitions (M&A) are strategic decisions taken for maximization of a company's growth through enhancing its production and marketing operations. They are being used in many fields such as information technology, telecommunications, and business process outsourcing and the traditional businesses to gain strength, expand the customer base, cut competition or enter into new markets or product segments (SAP 2008).

They have become popular even among airlines because of the enhanced competition, breaking of trade barriers, free flow of capital across countries and globalization of businesses (Gaughan, 1999).

2.4.6 Value Chain Strategies

Ventureline (2011) defines value chain as the sequential set of primary and support activities that an enterprise performs to turn inputs into value-added outputs for its external customers. It is a connected series of organizations, resources, and knowledge streams involved in the creation and delivery of value to end customers. According to Porter (1985) the value chain describes the activities within and around an organization which together creates a product or service. He argued that it the cost of these value activities and the value that they delivery that determines whether or not best value products or services are developed.

The value chain activities: in-bound logistics; operations; outbound logistics; marketing and sales; and service, coupled with the support activities like procurement, technology development, Human Resource Management and firm infrastructure can be used to create competitive advantage for an airline or any other company (Ventureline, 2011).

2.4.7 Financing Strategies

Bartlett & Ghoshal (2002) believe that, for most companies in the modern business environment, capital is not the resource that constrains growth. Global markets have opened up the supply side of funding, while widespread excess industry capacity has reduced the demand side. The recent reversals in some sectors notwithstanding, most companies are awash in capital (Bartlett & Ghoshal, 2002). Ulrich (1991) recognized finance as one of the three main traditional means of gaining competitive advantage.

Desai (2006) argues that, in diverse environments, firms, and this applies to airlines too, should not use the "one size fits all" approach to financing. Competitive advantage can be realized if firms identify both the obstacles and opportunities in a financial environment that include regulatory environments, institutional environments, and tax rules.

2.4.8 Marketing Strategies

An airline's strategy consists of the business approaches and initiatives it undertakes to attract customers and fulfill their expectations, to withstand competitive pressures with the aim of strengthening its market position. These strategies provide opportunities for the organization to respond to the various challenges within its operating environment (Ouma & Munyoki, 2010).

The competitive aim is to do a significantly better job of providing what customers are looking for, thereby enabling the company to earn a competitive advantage that will enable them to outsmart rivals in the market place (Ouma & Munyoki, 2010).

2.4.9 Gaming Strategies

Game theory provides a systematic way to develop strategies when one person's future depends on what other people do. Basically, airlines face the "prisoner dilemma," such as two rival airlines operating from the same origin to a number of identical destinations.

Generally, the service package that they offer to customers is very similar, so their rivalry is reflected in their fare offerings (Poh & Ghazali, 2011).

The trend of the fare pattern demonstrates that a firm responds to the aggressive pricing of the competitors by pricing more aggressively itself. An increase in a competitor's price, all other things being equal will normally prompt some passengers to switch to other airline (Poh & Ghazali, 2011).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter shows the methodology of the study. It shows how the data was collected to address the objectives in chapter one and fill the research gaps. It also discusses the research design, target population and sample, data collection, and data analysis.

3.2 Research Design

This study was exploratory and descriptive in nature and the researcher used survey method. Mugenda & Mugenda (1999) noted that a survey research attempts to collect data from members of a population and describes existing phenomena by asking individuals about their perception, attitudes behavior or values. Moreover, it explores the existing status of two or more variables at a given point in time. Primary data collected from such a population or census is more reliable and up-to-date and hence the choice of this method. The descriptive research is meant to enhance a systematic description that is as accurate, valid and reliable as possible regarding the responses on the challenges of competition and the strategic response of local firms in Kenyan aviation industry.

3.3 Population and Sample of the Study

All of the local airlines in Kenya were studied. According to Kenya Civil Aviation Authority (2012), there were fourteen local airlines in Kenya. The fourteen airlines therefore, made up the population of this study. This population also made up the sample of the study.

3.4 Data Collection

This study utilized primary data. The primary data was collected by use of a questionnaire given to either the marketing manager or one of the staff in the marketing department of the respondent airline. The questionnaire were dropped at the company offices by the researcher and collected later after filling. The questionnaire that was used is attached as appendix II of the research project.

3.5 Data analysis

After all primary data was collected; they were classified and sorted by the researcher. MS Excel 07 program was utilized to generate inferential and descriptive statistics: mean, standard deviation, percentages from the respondents to establish the relative importance and weight for each of the variables. The MS Excel 07 was also used to generate tables of means and standard deviation that were used in the analysis of the challenges of competition and the strategies used by airline.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter is organized as follows: the first section provides a detailed analysis of the variables to do with the challenges of competition faced by local airlines in Kenya. In this section the competitive strategies adopted by the local airlines are also discussed to determine how the airlines respond to strategic challenges from competition. The second part provides a discussion of the findings.

The objectives of this study were to determine the challenges of competition faced by local airlines in Kenya and to establish the competitive strategies adopted by local airlines in Kenya. The respondents participated in the research by providing responses to the questions in the questionnaire in the appendix II through the Likert scale. The Likert scale was on a scale of 1 to 5 in which a response of 1 meant least agreement with the statement while 5 meant very strong agreement. The responses were analyzed using means, percentages, standard deviation and presented in table form.

4.2 Challenges of Competition

The challenges of competition were analyzed based on all the airlines, based on number of workers, number of branches, age of firms, market share and based on capital structure. This was done to provide a deep insight on how the various challenges affected the airlines depending on their characteristics.

4.1.1 Challenges of Competition Based on all Airlines

The challenges of competition were analyze, first, without any classification but by simply grouping all the airlines together.

Table 1 : Challenges Based on All the Airlines

CHALLENGES	MEAN	SD
Low cost services from competitors	3.71	0.76
Loss of customers to other airlines	3.00	1.41
Competitors offer a wider range of services	3.00	1.53
New airlines entering the market	3.43	1.40
The services offered by competitors are unique	3.00	1.00
Loss of staff to competitors	3.00	1.73
Price wars with competitors	3.71	1.38
Challenges from the main providers of supplies to your company	3.29	0.76
Wider branch networks of competitors	3.57	0.98
Challenges from the major customers	3.00	0.82
Challenges from competitors' marketing activities	3.43	0.98
Retaliation from competitors when your airline changes strategy	3.86	1.21
High costs of customers switching from a competitor to your airline	3.00	1.15
Strong brand name of competitors	3.71	1.11
The dominance of few competitors in the market.	4.14	0.90
GRAND MEAN	**3.39**	

Source: Prepared by Researcher

Table 1 above provides an analysis of the challenges of competition that face the local airlines in Kenya. The analysis was done based on all the firms together without any specific categorization. As shown by the mean score to the responses by the airlines, the most felt challenges by these airlines were: the dominance of few competitors in the market (M = 4.14); retaliation from competitors when your airline changes strategy (3.86); low cost services from competitors (M = 3.71); price wars with competitors (M = 3.71); strong brand name of competitors (M = 3.71) and wider branch networks of competitors (M = 3.57).

However, the following were scored as weak sources of challenge from competition: loss of customers to other airlines; competitors offering a wider range of services; the services offered by competitors being unique; loss of staff to competitors; challenges from the major customers and high costs of customers switching from a competitor to your airlines. These challenges scored each a mean of 3.00.

4.1.2 Challenges of Competition Based on Number of Workers

Challenges here were analyzed by grouping the airlines into those that had less than 200 workers and those that had more than 200 workers as the proxy for the sizes of the airlines.

Table 2 : Challenges Based on Number of Workers

Challenges	**BELOW 200**		**OVER 200**	
	MEAN	**SD**	**MEAN**	**SD**
Low cost services from competitors	3.67	0.58	3.75	0.96
Loss of customers to other airlines	3.00	1.00	3.00	1.83
Competitors offer a wider range of services	3.00	2.00	3.00	1.41
New airlines entering the market	3.33	0.58	3.50	1.91
The services offered by competitors are unique	3.33	0.58	2.75	1.26
Loss of staff to competitors	2.67	2.08	3.25	1.71
Price wars with competitors	4.33	1.15	3.25	1.50
Challenges from the main providers of supplies to your company	3.67	1.15	3.00	0.00
Wider branch networks of competitors	4.00	1.00	3.25	0.96
Challenges from the major customers	3.00	1.00	3.00	0.82
Challenges from competitors' marketing activities	3.67	0.58	3.25	1.26
Retaliation from competitors when you airline changes strategy	3.33	1.53	4.25	0.96
High costs of customers switching from a competitor to your airline	2.33	1.15	3.50	1.00
Strong brand name of competitors	3.33	1.53	4.00	0.82
The dominance of few competitors in the market.	3.67	0.58	4.50	1.00
GRAND MEAN	**3.36**		**3.42**	

Source: Prepared by Researcher

Table 2 above provides the analysis of the challenges of competition based on the number of workers in each of the airlines studied. The airlines were categorized into those with 200 workers or less and those with more than 200 workers. Among the firms with 200 or less workers the main challenges of competition were: price wars with competitors (M = 4.33); wider branch networks of competitors (M = 4.00); low cost services from competitors (M = 3.67); challenges from the main providers of supplies to your company (M = 3.67); challenges from competitors' marketing activities (M = 3.67) and the dominance of few competitors in the market (M = 3.67).

Among the airlines with less than 200 workers, loss of customers to other airlines (M = 3.00); competitors offering a wider range of services (M = 3.00); challenges from the major customers (M = 3.00); loss of staff to competitors (M = 2.67) and high costs of customers switching from a competitor to your airline (M = 2.33) were the least felt as challenges of competition.

4.1.3 Challenges of Competition Based on Number of Branches

The analysis of challenges were done by grouping the airlines into those with one branch and those with many branches and the means of the responses calculated to give the seriousness of the challenge.

Table 3 : Challenges by Number of Branches

Challenges	ONE		MULTIPLE	
	MEAN	SD	MEAN	SD
Low cost services from competitors	3.67	1.15	3.75	0.50
Loss of customers to other airlines	2.67	2.08	3.25	0.96
Competitors offer a wider range of services	2.67	1.53	3.25	1.71
New airlines entering the market	4.33	1.15	2.75	1.26
The services offered by competitors are unique	3.00	0.00	3.00	1.41
Loss of staff to competitors	3.00	2.00	3.00	1.83
Price wars with competitors	3.33	1.53	4.00	1.41
Challenges from the main providers of supplies to your company	3.67	1.15	3.00	0.00
Wider branch networks of competitors	3.00	1.00	4.00	0.82
Challenges from the major customers	3.00	0.00	3.00	1.15
Challenges from competitors' marketing activities	3.00	0.00	3.75	1.26
Retaliation from competitors when your airline changes strategy	3.33	1.53	4.25	0.96
High costs of customers switching from a competitor to your airline	3.00	2.00	3.00	0.00
Strong brand name of competitors	3.67	1.15	3.75	1.26
The dominance of few competitors in the market.	4.00	1.00	4.25	0.96
GRAND MEAN	**3.29**		**3.46**	

Source: Prepared by Researcher

In Table 3 above, the analysis of the challenges of competition among the airlines with more than 200 workers indicated that the seriously felt challenges were the dominance of few competitors in the market (M = 4.50); retaliation from competitors when an airline changes strategy (4.25); strong brand names of competitors (4.00); low cost services from competitors (M = 3.75); new airlines entering the market (M = 3.50) and high costs of customers switching from a competitor to an airline (M = 3.50). The following were not felt as serious challenges according to the means they scored: the main providers of supplies to your company (M = 3.00); loss of customers to other airlines (M = 3.00); competitors offering a wider range of services (M = 3.00); the major customers (M = 3.00) and the uniqueness of services offered by competitors (M = 2.75).

4.1.4 Challenges of Competition Based on Age of Firms

The analysis of challenges were done by grouping the airlines into those that had been operational for less than 15 years and those that had operated for more than 15 years and the means and standard deviations of the responses calculated to give the seriousness of the challenge.

Table 4 : Challenges by Age of Firms

Challenges	BELOW 15		OVER 15	
	MEAN	SD	MEAN	SD
Low cost services from competitors	3.75	0.96	3.67	0.58
Loss of customers to other airlines	3.00	1.41	3.00	1.73
Competitors offer a wider range of services	2.00	1.15	4.33	0.58
New airlines entering the market	3.00	1.63	4.00	1.00
The services offered by competitors are unique	2.50	1.00	3.67	0.58
Loss of staff to competitors	2.25	1.89	4.00	1.00
Price wars with competitors	3.75	1.50	3.67	1.53
Challenges from the main providers of supplies to your company	3.50	1.00	3.00	0.00
Wider branch networks of competitors	3.50	0.58	3.67	1.53
Challenges from the major customers	3.00	0.82	3.00	1.00
Challenges from competitors' marketing activities	3.00	0.82	4.00	1.00
Retaliation from competitors when your airline changes strategy	3.75	1.50	4.00	1.00
High costs of customers switching from a competitor to your airline	3.00	1.63	3.00	0.00
Strong brand name of competitors	3.50	1.29	4.00	1.00
The dominance of few competitors in the market.	4.25	0.96	4.00	1.00
GRAND MEAN	**3.19**		**3.65**	

Source: Prepared by Researcher

Table 4 below shows the analysis of the challenges of competition basing on the number of branches and classification according to those with one branch versus those with more than one branch. Among the airlines with only one branch the main challenging issues from competition were: new airlines entering the market (M = 4.33); the dominance of few competitors in the market (M = 4.00); low cost services from competitors (M = 3.67); challenges from the main providers of supplies (M = 3.67) and strong brand names of competitors (M = 3.67). The challenges not felt seriously by the airlines with one branch were loss of customers to other airlines (M = 2.67) and competitors offering a wider range of services (M = 2.67).

Among the airlines with multiple branches the most felt challenges were: the dominance of few competitors in the market (M = 4.25); retaliation from competitors when airlines change strategy (M = 4.25); price wars with competitors (M = 4.00) and wider branch networks of competitors (M = 4.00). The following were not regarded as serious challenges to the airlines with multiple branches (M = 3.00): challenges from the main providers of supplies (M = 3.00); uniqueness of services offered by competitors (M = 3.00); loss of staff to competitors (3.00); major customers (M = 3.00); high costs of customers switching from a competitor (3.00) or new airlines entering the market (M = 2.75).

According to Table 4 the airlines that had been operational for less than 15 years indicated they faced serious challenge from the dominance of few competitors in the market (M = 4.25); the low cost services from competitors (M = 3.75); price wars with competitors (M = 3.75); retaliation from competitors when the airline changes strategy (M = 3.75); challenges from the main providers of supplies (M = 3.50); wider branch networks of competitors (M = 3.50) and strong brand names of competitors (M = 3.50). The areas that were not considered serious challenges were the uniqueness of the services offered by competitors (M = 2.50); the loss of staff to competitors (M = 2.25) and the wider range of services offered by competitors (M = 2.00).

Airlines that had been operational for over 15 years indicated that the most felt sources of challenges were: competitors offering a wider range of services (M = 4.33); the dominance of few competitors in the market (M = 4.00); retaliation from competitors when the airlines changes strategy (M = 4.00); strong brand names of competitors (M = 4.00); new airlines entering the market (M = 4.00); competitors' marketing activities (M = 4.00) and loss of staff to competitors (M = 4.00). These airlines felt that, main providers of supplies to their airlines (M = 3.00); loss of customers to other airlines (M = 3.00); major customers (M = 3.00) and high costs of customers switching from a competitor to their airlines (M = 3.00) were not serious challenges.

4.1.5 Challenges of Competition Based on Market Share

The analysis of challenges were then done by grouping the airlines into those enjoying less than 30 % of their market share and enjoying more than 30 % and the means and standard deviations of the responses calculated to give the seriousness of the challenge.

Table 5 : Challenges by Market Share

Challenges	BELOW 30 %		ABOVE 30 %	
	MEAN	SD	MEAN	SD
Low cost services from competitors	4.33	0.58	3.25	0.50
Loss of customers to other airlines	4.00	1.00	2.25	1.26
Competitors offer a wider range of services	3.67	1.15	2.50	1.73
New airlines entering the market	4.00	1.00	3.00	1.63
The services offered by competitors are unique	3.33	0.58	2.75	1.26
Loss of staff to competitors	4.00	1.73	2.25	1.50
Price wars with competitors	5.00	0.00	2.75	0.96
Challenges from the main providers of supplies to your company	3.00	0.00	3.50	1.00
Wider branch networks of competitors	3.67	1.15	3.50	1.00
Challenges from the major customers	3.00	1.00	3.00	0.82
Challenges from competitors' marketing activities	3.67	0.58	3.25	1.26
Retaliation from competitors when your airline changes strategy	4.33	1.15	3.50	1.29
High costs of customers switching from a competitor to your airline	3.67	1.15	2.50	1.00
Strong brand name of competitors	4.00	1.73	3.50	0.58
The dominance of few competitors in the market.	4.00	1.00	4.25	0.96
GRAND MEAN	**3.83**		**3.14**	

Source: Prepared by Researcher

According to Table 5 above, airlines that controlled less than 30 % of their market indicated that the main challenges they faced were: price wars with competitors (M = 5.00); low cost services from competitors (M = 4.33); retaliation from competitors when they change strategy (M = 4.33); loss of customers to other airlines (M = 4.00); new airlines entering the market (M = 4.00); loss of staff to competitors (M = 4.00); strong brand name of competitors (M = 4.00) and the dominance of few competitors in the market (M = 4.00). On the other hand uniqueness of services offered by competitors (M = 3.33); main providers of supplies to your company (M = 3.00) and major customers (M = 3.00).

4.1.6 Challenges of Competition Based on Capital Structure

The analysis of challenges was done here by grouping the airlines into those with less than 30 % of debt in their capital structure and those with more. The means and the standard deviations of the responses were calculated to give the seriousness of the challenge.

Table 6 : Challenges by Capital Structure

Challenges	**BELOW 30 %**		**ABOVE 30 %**	
	MEAN	**SD**	**MEAN**	**SD**
Low cost services from competitors	3.80	0.84	3.50	0.71
Loss of customers to other airlines	3.00	1.58	3.00	1.41
Competitors offer a wider range of services	3.20	1.48	2.50	2.12
New airlines entering the market	3.60	1.67	3.00	0.00
The services offered by competitors are unique	2.80	1.10	3.50	0.71
Loss of staff to competitors	3.20	1.79	2.50	2.12
Price wars with competitors	3.80	1.64	3.50	0.71
Challenges from the main providers of supplies to your company	3.00	0.00	4.00	1.41
Wider branch networks of competitors	3.40	1.14	4.00	0.00
Challenges from the major customers	2.80	0.84	3.50	0.71
Challenges from competitors' marketing activities	3.20	0.84	4.00	1.41
Retaliation from competitors when your airline changes strategy	4.20	1.10	3.00	1.41
High costs of customers switching from a competitor to your airline	3.40	0.89	2.00	1.41
Strong brand name of competitors	3.80	1.30	3.50	0.71
The dominance of few competitors in the market.	4.00	1.00	4.50	0.71
GRAND MEAN	**3.41**		**3.33**	

Source: Prepared by Researcher

Table 6 above indicated that among the airlines that had below 30 % of debt in their capital structure, the most felt sources of challenges were from: Retaliation from competitors when an airline changes strategy (M = 4.20); the dominance of few competitors in the market (M = 3.80); low cost services from competitors (M = 3.80);

price wars with competitors (M = 3.80) and strong brand name of competitors (M = 3.80). The least felt challenges were loss of customers to other airlines (M = 3.00); challenges from the main providers of supplies to your company (M = 3.00); the services offered by competitors are unique (M = 2.80) and challenges from the major customers (M = 2.80).

Among companies with more than 30 % debt in their capital structure the most felt challenges were: the dominance of few competitors in the market (4.50); wider branch networks of competitors (M = 4.00); challenges from competitors' marketing activities (M = 4.00) and challenges from the main providers of supplies to your company (M = 4.00). The least felt challenges were: competitors offer a wider range of services (M = 2.50); loss of staff to competitors (M = 2.50) and high costs of customers switching from a competitor to your (M = 2.00) airline.

4.3Competitive Strategies

Competitive strategies were analyzed based on all the airlines, based on number of workers, number of branches, age of firms, market share and based on capital structure. This was done to provide a deep insight on how the various challenges affected the airlines depending on their characteristics.

4.1.7 Competitive strategies Based on all the Companies

The analysis of competitive strategies was done by grouping all the companies together. The means and the standard deviations of the responses were calculated to give the seriousness of the use of the strategy.

Table 7: Competitive Strategies based on all the Companies

Competitive Strategies	**MEAN**	**SD**
Widening the current network of branches	3.57	1.27
Coming up with new services	3.71	1.25
Increase expenditure in marketing	3.57	0.98
Recruit more staff	2.86	0.69
Increased Financing	4.29	0.76
Expenditure in ICT	2.71	1.38
Effort in repositioning of the airline	2.86	1.07
Cost reduction	3.86	1.07
Expenditure in R&D	3.00	1.00
Effort towards Merger and Acquisition	2.57	0.98
Big sales/price cut	4.14	0.90
Lay off employees.	2.71	1.38
Raise Prices	2.57	0.98
Improve product quality	3.71	0.95
Out-sourcing of work	3.57	1.13
Reduce service range/item	2.57	1.13
Making the airline's product different from those of others	3.86	1.21
Provide service to a certain market segment	3.57	0.98
Increasing presence in other countries	4.14	0.90
Venturing into businesses outside aviation	1.71	0.76
GRAND MEAN	**3.28**	

Source: Prepared by Researcher

Table 7 above provides an analysis of the competitive strategies based on all the airlines in this study. The Grand mean of the competitive strategies was 3.28 indicating that the airlines in general used the identified competitive strategies to the challenges in their lines of business. However, the most used competitive strategies according to Table 7 were: increased financing (M = 4.29); big sales/price cuts (M = 4.14); increasing presence in other countries; cost reduction (M = 4.14); making the airline's product different from those of others (M = 3.86); coming up with new services and improving product quality (M = 3.86). The least used strategies according to the mean scores were: expenditures in ICT (M = 2.71); laying-off of employees (M = 2.71); efforts towards Mergers and Acquisitions (M = 2.57); raising prices (M = 2.57); reducing service/item range (M = 2.57) and venturing into businesses outside aviation (M = 1.71).

4.1.7 Competitive strategies Based on Number of Workers

The analysis of competitive strategies was done by grouping all the airlines based on the numbers of workers they had. The means and the standard deviations of the responses were calculated to give the seriousness of the use of the strategy.

Table 8 : Strategies by Number of Workers

Competitive Strategies	**BELOW 200**		**ABOVE 200**	
	MEAN	**SD**	**MEAN**	**SD**
Widening the current network of branches	3.33	1.53	3.75	1.26
Coming up with new services	3.33	1.53	4.00	1.15
Increase expenditure in marketing	4.33	0.58	3.00	0.82
Recruit more staff	2.33	0.58	3.25	0.50
Increased Financing	4.67	0.58	4.00	0.82
Expenditure in ICT	3.00	1.73	2.50	1.29
Effort in repositioning of the airline	2.33	1.53	3.25	0.50
Cost reduction	4.00	1.00	3.75	1.26
Expenditure in R&D	3.33	1.53	2.75	0.50
Effort towards Merger and Acquisition	2.67	0.58	2.50	1.29
Big sales/price cut	4.00	1.00	4.25	0.96
Lay off employees.	1.67	0.58	3.50	1.29
Raise Prices	2.00	1.00	3.00	0.82
Improve product quality	4.00	1.00	3.50	1.00
Out-sourcing of work	2.67	0.58	4.25	0.96
Reduce service range/item	1.67	0.58	3.25	0.96
Making the airline's product different from those of others	4.00	1.73	3.75	0.96
Provide service to a certain market segment	4.33	0.58	3.00	0.82
Increasing presence in other countries	4.00	1.00	4.25	0.96
Venturing into businesses outside aviation	1.33	0.58	2.00	0.82
GRAND MEAN	**3.15**		**3.375**	

Source: Prepared by Researcher

According to Table 8 above, airlines that had more than 200 workers scored a Grand mean of 3.375 indicating that they generally used the identified challenges to a higher extent that the airlines with less than 200 workers which had a Grand mean of 3.15. The airlines with less than 200 workers indicated that the competitive strategies they use to the largest extent were: increased financing (M = 4.67); increased expenditure in marketing; provide service to a certain market segment (M = 4.33); cost reduction (M = 4.33); big sales/price cut (M = 4.00); improve product quality (M = 4.00); making the airline's product different from those of others (M = 4.00) and increasing presence in other countries (M = 4.00). The strategies least used by these airlines with less than 200 workers were recruitment of more staff (M = 2.33), effort in repositioning of the airline (M = 2.33), raising prices (M = 2.00), laying-off of employees (M = 1.67), reducing service/item range (M = 1.67) and venturing into businesses outside aviation (M = 1.33).

Among the airlines that had more than 200 workers the most used competitive strategies were: big sales/price cuts (M = 4.25), increasing presence in other countries (M = 4.25); out-sourcing of work (M = 4.25); increased financing (M = 4.00); coming up with new services (M = 4.00); cost reduction (M = 3.75); making the airline's product different from those of others (M = 3.75) and widening the current network of branches (M = 3.75). The least used strategies by these airlines were: expenditure in R&D (M = 2.75), expenditure in ICT (M = 2.50), effort towards Merger and Acquisition (M = 2.50) and venturing into businesses outside aviation (M = 2.00).

4.1.8 Competitive strategies Based on Number of Branches

Analysis of competitive strategies was, further, done by grouping all the airlines based on the numbers of branches they had. The means and the standard deviations of the responses were calculated to give the seriousness of the use of the strategy. The analysis of the competitive strategies by of branches owned by the airlines revealed the analysis of the results as presented in Table 9.

Table 9: Competitive Strategies by Number of Branches

Competitive Strategies	ONE BRANCH		MULTIPLE	
	MEAN	SD	MEAN	SD
Widening the current network of branches	4.00	1.00	3.25	1.50
Coming up with new services	3.33	1.53	4.00	1.15
Increase expenditure in marketing	3.33	0.58	3.75	1.26
Recruit more staff	3.33	0.58	2.50	0.58
Increased Financing	4.00	1.00	4.50	0.58
Expenditure in ICT	2.33	0.58	3.00	1.83
Effort in repositioning of the airline	2.33	1.15	3.25	0.96
Cost reduction	3.67	0.58	4.00	1.41
Expenditure in R&D	2.67	0.58	3.25	1.26
Effort towards Merger and Acquisition	3.33	0.58	2.00	0.82
Big sales/price cut	4.33	0.58	4.00	1.15
Lay off employees.	3.67	1.53	2.00	0.82
Raise Prices	3.00	0.00	2.25	1.26
Improve product quality	3.00	0.00	4.25	0.96
Out-sourcing of work	3.67	1.15	3.50	1.29
Reduce service range/item	2.67	1.15	2.50	1.29
Making the airline's product different from those of others	2.67	0.58	4.75	0.50
Provide service to a certain market segment	3.67	0.58	3.50	1.29
Increasing presence in other countries	4.00	1.00	4.25	0.96
Venturing into businesses outside aviation	2.00	1.00	1.50	0.58
GRAND MEAN	**3.25**		**3.30**	

Source: Prepared by Researcher

According to table 9 above, the difference between the use of the identified strategies by the airlines with one branch and those with multiple branches was negligible as those with single branches had a grand mean of 3.25 while those with multiple branches had a grand mean of 3.30. A deeper analysis revealed that the most used competitive strategies by airlines with on branch were: big sales/price cuts (M = 4.33); widening of the current network of branches (M = 4.00); increased financing (M = 4.00); increased presence in other countries (M = 4.00); cost reduction (M = 3.67); laying-off employees (M = 3.67), out-sourcing of work (M = 3.67) and provision of service to a certain market segment (M = 3.67). The least used competitive strategies by the firms with one branch were: expenditure in R&D (M = 2.67); reduction of service/item range (M = 2.67); making the airline's products different from those of others (M = 2.67); expenditure in ICT (M = 2.33); efforts in repositioning of the airlines (M = 2.33) and venturing into businesses outside aviation (M = 2.00).

On the other hand, the airlines with many branches used the following strategies to a large extent: making the airline's product different from those of others (M = 4.75); increasing financing (M = 4.50); increasing presence in other countries (M = 4.25); improving product quality (M = 4.25); big sales/price cuts (M = 4.00); cost reduction (M = 4.00) and coming up with new services (M = 4.00). On the contrary the least used strategies were: raising prices (M = 2.25); laying-off employees (M = 2.00), effort towards Mergers and Acquisition (M = 2.00) and venturing into businesses outside aviation (M = 1.50).

4.1.8 Competitive strategies Based on Number of Age of the Airlines

Here, analysis of competitive strategies was done by grouping airlines based on whether the airlines had operated for more than or less than 15 years in Kenya. The means and the standard deviations of the responses were calculated to give the seriousness of the use of the strategy.

Table 10 : Competitive Strategies by Age

Competitive Strategies	BELOW 15		OVER 15	
	MEAN	SD	MEAN	SD
Widening the current network of branches	3.50	1.29	3.67	1.53
Coming up with new services	3.75	1.50	3.67	1.15
Increase expenditure in marketing	3.25	0.96	4.00	1.00
Recruit more staff	2.75	0.50	3.00	1.00
Increased Financing	4.50	0.58	4.00	1.00
Expenditure in ICT	2.00	0.82	3.67	1.53
Effort in repositioning of the airline	2.25	0.96	3.67	0.58
Cost reduction	4.25	0.96	3.33	1.15
Expenditure in R&D	2.75	0.50	3.33	1.53
Effort towards Merger and Acquisition	3.00	0.82	2.00	1.00
Big sales/price cut	4.75	0.50	3.33	0.58
Lay off employees.	2.75	1.50	2.67	1.53
Raise Prices	3.00	0.82	2.00	1.00
Improve product quality	3.75	0.96	3.67	1.15
Out-sourcing of work	3.75	1.50	3.33	0.58
Reduce service range/item	2.25	0.50	3.00	1.73
Making the airline's product different from those of others	3.75	1.50	4.00	1.00
Provide service to a certain market segment	3.75	1.26	3.33	0.58
Increasing presence in other countries	4.25	0.96	4.00	1.00
Venturing into businesses outside aviation	1.50	0.58	2.00	1.00
GRAND MEAN	**3.28**		**3.28**	

Source: Prepared by Researcher

Table 10 above provides the analysis of the competitive strategies basing upon the number of years the companies have been operational in Kenya. The companies were divided into those that had been operational for less than 15 years and those that had been operational for more than 15 years. As shown by the grand means of 3.28, the companies provided equal grand rating of the extent to which the firms use the identified competitive strategies. However, the airlines that had been in Kenya for less than 15 years indicated that the most used strategies were: big sales/price cut (M = 4.75); increased financing (M = 4.50); cost reduction (M = 4.25); increasing presence in other countries (M = 4.25); coming up with new services (M = 3.75); improving product quality (M = 3.75); out-sourcing of work (M = 3.75); making the airline's product different from those of others (M = 3.75) and providing service to a certain market segment (M = 3.75). On the other hand the following competitive strategies were used to lesser extent by the airlines that had been operational for less than 15 years as indicated by the lower mean scores: little effort in repositioning of the airline (M = 2.25); reducing service/item range (M = 2.25); expenditure in ICT (M = 2.00); and venturing into businesses outside aviation (M = 1.50).

The companies that had been operational in Kenya for over 15 years indicated that the competitive strategies they use to a greater extent in the face of strategic competition were: increased financing (M = 4.00); increasing presence in other countries (M = 4.00); making the airline's products different from those of others (M = 4.00); increase expenditure in marketing (M = 4.00); coming up with new services (M = 3.67); improving product quality (M = 3.67); widening the current network of branches (M = 3.67); efforts in repositioning of the airlines (M = 3.67) and expenditure in ICT (M = 3.67). However, the means scores for these companies show that the least use competitive strategies were: laying-off of employees (M = 2.67); effort towards Mergers and Acquisition (M = 2.00); raising prices (M = 2.00) and venturing into businesses outside (M = 2.00).

4.1.9 Competitive strategies Based on Market Share

Analysis of competitive strategies was done by grouping the airlines based on whether they enjoyed less than or more than 30 % of their market. The means and the standard deviations of the responses were calculated to give the seriousness of the use of the strategy.

Table 11 : Competitive Strategies by Market Share

Competitive Strategies	BELOW 30 %		OVER 30 %	
	MEAN	SD	MEAN	SD
Widening the current network of branches	4.00	1.73	3.25	0.96
Coming up with new services	4.33	1.15	3.25	1.26
Increase expenditure in marketing	4.00	1.00	3.25	0.96
Recruit more staff	2.33	0.58	3.25	0.50
Increased Financing	5.00	0.00	3.75	0.50
Expenditure in ICT	3.33	1.53	2.25	1.26
Effort in repositioning of the airline	3.00	1.00	2.75	1.26
Cost reduction	4.33	0.58	3.50	1.29
Expenditure in R&D	3.33	1.53	2.75	0.50
Effort towards Merger and Acquisition	3.00	1.00	2.25	0.96
Big sales/price cut	4.33	1.15	4.00	0.82
Lay off employees.	2.67	2.08	2.75	0.96
Raise Prices	2.00	1.00	3.00	0.82
Improve product quality	4.00	1.00	3.50	1.00
Out-sourcing of work	3.33	1.53	3.75	0.96
Reduce service range/item	1.67	0.58	3.25	0.96
Making the airline’s product different from those of others	4.33	1.15	3.50	1.29
Provide service to a certain market segment	4.33	0.58	3.00	0.82
Increasing presence in other countries	4.33	1.15	4.00	0.82
Venturing into businesses outside aviation	1.67	0.58	1.75	0.96
GRAND MEAN	**3.47**		**3.14**	

Source: Prepared by Researcher

Table 11 above provides the analysis of the competitive challenges basing on the market shares enjoyed by the airlines. The airlines were grouped for analysis on the basis of whether the airline enjoyed more than or less than 30 % of the market it operates in. the grand means show that the airlines that enjoyed less than 30 % of their total market used the challenges listed in the questionnaire to a larger extent than the airlines that enjoyed more than 30 %. As shown in Table 11 the grand mean for the airlines controlling less than 30 % of their market was 3.47 which was higher than the grand mean of 3.14 scored by the airlines that enjoyed more than 30 % of their total market share.

On the one hand, the airlines that enjoyed less than 30 % of their total market indicated that the most used competitive strategies were (M = 5.00): increased financing (M = 4.33); coming up with new services (4.33); cost reduction (4.33); big sales/price cuts (4.33); making the airline's product different from those of others (M = 4.33); providing services to a certain market segment (M = 4.33); increasing presence in other countries (M = 4.33); widening the current network of branches (M = 4.00); increasing expenditure in marketing (M = 4.00) and improving product quality (M = 4.00). The least used strategies by these firms as indicated by the mean scores in Table 11 were: recruiting more staff (M = 2.33); raising prices (M = 2.00); reduce service/item range (M = 1.67); venturing into businesses outside aviation (M = 1.67).

On the other hand, airlines that enjoyed over 30 % of their market indicated that the most used competitive strategies were: big sales/price cuts (M = 4.00); increasing presence in other countries (M = 4.00); increased financing (M = 3.75) and outsourcing of work (M =

3.75). However, the least used strategies as indicated by the lower mean scores were: expenditure in R&D (M = 2.75); effort in repositioning of the airline (M = 2.75); lay off employees (M = 2.75); expenditure in ICT (M = 2.25); effort towards Mergers and Acquisition (M = 2.25) and venturing into businesses outside aviation (M = 2.25).

4.1.10 Competitive strategies Based on Capital Structure

The analysis was done depending on the percentage of debt in the capital structure of the airlines that participated in the study.

Table 12 : Competitive Strategies by Capital Structure

Competitive Strategies	BELOW 30 %		ABOVE 30 %	
	MEAN	SD	MEAN	SD
Widening the current network of branches	4.00	1.22	2.50	0.71
Coming up with new services	4.20	1.10	2.50	0.71
Increase expenditure in marketing	3.40	1.14	4.00	0.00
Recruit more staff	2.80	0.84	3.00	0.00
Increased Financing	4.40	0.89	4.00	0.00
Expenditure in ICT	2.60	1.52	3.00	1.41
Effort in repositioning of the airline	3.00	0.71	2.50	2.12
Cost reduction	4.40	0.55	2.50	0.71
Expenditure in R&D	3.00	1.22	3.00	0.00
Effort towards Merger and Acquisition	2.80	0.84	2.00	1.41
Big sales/price cut	4.40	0.89	3.50	0.71
Lay off employees.	2.80	1.64	2.50	0.71
Raise Prices	2.60	1.14	2.50	0.71
Improve product quality	4.00	1.00	3.00	0.00
Out-sourcing of work	3.60	1.34	3.50	0.71
Reduce service range/item	2.40	1.14	3.00	1.41
Making the airline's product different from those of others	4.20	1.10	3.00	1.41
Provide service to a certain market segment	3.60	1.14	3.50	0.71
Increasing presence in other countries	4.20	1.10	4.00	0.00
Venturing into businesses outside aviation	1.80	0.84	1.50	0.71
GRAND MEAN	**3.41**		**2.95**	

Source: Prepared by Researcher

According to Table 12 above the airlines with less than 30 % debt scored a grand mean of 3.41 which was higher than the grand mean of 2.95 scored by the airline that had over 30 % debt in their structure. This indicated that the airlines with lesser debt ratios used the competitive strategies used in the study to extents higher than those that had more debt.

The airlines with lower debt levels indicated that the most used competitive strategies were: increased financing (M = 4.40); cost reduction (M = 4.40); big sales/price cuts (M = 4.40); coming up with new services (M = 4.20); making the airline's product different from those of others (M = 4.20); increasing presence in other countries (M = 4.20); widening the current network of branches (M = 4.00) and improving product quality (M = 4.00). The least use competitive strategies were: expenditure in ICT (M = 2.60); raise prices (M = 2.60); reduce service range/item (M = 2.40) and venturing into businesses outside aviation (M = 1.80).

Among the companies with higher debt levels in their capital structure, the most used competitive strategies were: increased financing (M = 4.00); increasing presence in other countries (M = 4.00); increase expenditure in marketing (M = 4.00); big sales/price cuts (M = 3.50); out-sourcing of work (M = 3.50) and providing services to a certain market segment (M = 3.50). On the contrary, the competitive strategies least used by these firms with higher levels of debt were: cost reduction (M = 2.50); coming up with new services (M = 2.50); widening the current network of branches (M = 2.50); efforts in repositioning of the airline (M = 2.50); laying-off employees (M = 2.50); raising prices (M = 2.50); efforts towards merger and acquisition (M = 2.00) and venturing into businesses outside aviation (M = 1.50).

4.4 Discussion of Findings

This study found that the most met challenges across the airlines were that the market is dominated by a few competitors who also have strong brand names. Other strong challenges were the loss of customers to other airlines and retaliation from competitors when an airline changes strategy. In response to these challenges, the most resorted to competitive strategies by the airlines irrespective of their nature were increasing financing, sales/price cuts, making products and services unique and different from others, increasing presence in other countries (especially in East Africa) and cost reduction. Challenges like loss of customers to other airlines, competitors offering a wider range of products, uniqueness of other airlines' products, loss of staff to competitors, major customers, and costs of customers switching from on airline to another were not given any high importance by any airline in the various categories used in the analysis. The findings do not echo what Omondi (2006) found out in the study carried out on the thirty airlines operating in Kenya at the time of the study.

At that time Omondi (2006) had found that meeting CAA regulations and rules, while earlier Ikiara et al (1999) cited challenges that had adversely affected the performance of the aviation sector to include shortage of trained personnel, high duty and VAT on aircraft and spare parts, inadequate facilities at airports, depreciation of the Kenyan shilling and high inflation rates that had made tickets costly and thus reduced demand for air transport, and high operational costs resulting from high jet fuel. Evidently, this study finds that the challenges are not the same.

The strategies used by the local firms were also found to be different in this study as compared to the competitive responses used by all the airlines as studied by Omondi (2006). Whereas Omondi (2006) found that the airlines responded to competitive challenges by leasing of aircraft, exiting loss making routes, booking accommodation for passengers after late arrivals and misconnections, offering wider range of products and services, and connections with other airlines through a hub, guaranteeing security, offering special gifts, using highly skilled staff, and opening new routes, this study finds that local airlines focused on increasing financing, sales/price cuts, making products and services unique and different from others, increasing presence in other countries (especially in East Africa) and cost reduction.

This study found that pricing and costs were a major strategy in response to the various challenges like the dominance of few competitors and retaliation from competitors. This is not unique as other studies like Poh & Ghazali (2011) found out when they conducted a study on local airlines plying the route Kuala from Kuala Lumpur to Singapore and domestic in Malaysia. Their data and evidence revealed the reality of price competition among the low cost airlines.

This study found that increasing presence in other countries was a key strategy used by the local airlines in Kenya. The airlines increase presence especially in the East African market. This kind of diversification of market agrees with Ansoff's (1965) assertion that a company can increase profitability through new markets. The airlines seemed not to give importance to the other possible modes of diversification suggested by Ansoff (1965) like venturing into other forms of business out of the main industry of operation.

It was found in this study that using strategies that focus on R&D, use of ICT and reduction of service range among local airlines were not given critical importance by any of the airlines in any category. Whereas Omondi (2006) found that airlines in Kenya at that time used ICT in their business, the local companies that participating in this study did not rate use of ICT as a key strategic response to competitive challenge. Information Communication Technologies (ICTs) have revolutionized the entire business world. The responses of the local Kenyan airlines seem not to be in tandem with the global aviation operators. A study by Buhalis (2003) had asserted that the airline industry in particular had fostered a dependency on technology for their operational and strategic management. Airlines were early adopters of ICTs and have a long history of technological innovation, in comparison to many other travel and tourism businesses. The work by Buhalis (2003) demonstrated that the airline industry was using the Internet to improve its distribution strategy and reduce costs; it also used intranets and internal systems to develop tactical and strategic management.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of the findings of this study, the drawn conclusions and the limitations of the study. The chapter discusses in, summary form, the challenges that local airlines in Kenya face and how they lay out the competitive strategies to mitigate the effect of the challenges. Suggestions for further research and recommendations for quality and practice are also discussed.

5.2 Summary of Findings

Based on the findings of this study the main challenges that face local Kenyan airlines were the dominance of few competitors in the market; retaliation from competitors when your airline changes strategy; low cost services from competitors; price wars with competitors; strong brand name of competitors and wider branch networks of competitors. On analysis of the airlines based on different categorizations, the most felt challenges that cut across the categories were that the market is dominated by a few competitors who also have strong brand names. Other strong challenges were the loss of customers to other airlines and retaliation from competitors when an airline changes strategy.

On the other hand the least felt challenges were loss of customers to other airlines; competitors offering a wider range of services; the services offered by competitors being unique; loss of staff to competitors; challenges from the major customers and high costs of customers switching from a competitor to your airlines. These challenges had low mean scores as shown in Table 1.

In reaction to the challenges the mostly used responses according to Table 7 were increased financing; big sales/price cuts; increasing presence in other countries; cost reduction; making the airline's product different from those of others; coming up with new services and improving product quality. The least used responses were expenditures in ICT; laying-off of employees; efforts towards Mergers and Acquisitions; raising prices; reducing service/item range and venturing into businesses outside aviation each of which had mean scores of 2.71 or less.

5.3 Conclusions of the Study

This study was designed to answer the questions of what challenges faced the local Kenyan in the aviation business environment and what competitive strategies had these local companies adopted in the face of these challenges? The questions were answered in through the two objectives: to determine the challenges of competition faced by local airlines in Kenya and to establish the competitive strategies adopted by local airlines in Kenya.

Based on the findings this paper finds that the main competitive challenges facing local Kenyan in the aviation business environment were the dominance of few competitors in the market; retaliation from competitors when your airline changes strategy; low cost services from competitors; price wars with competitors; strong brand name of competitors and wider branch networks of competitors. It is also concluded that loss of customers to other airlines; the provision of wider ranges of products by competitors; uniqueness of products offered by competitors; loss of staff to competitors; threats from major suppliers; competitors' marketing activities and the costs of customers switching from one airline to another did not provide serious competitive challenge to the airlines.

In response to the serious challenges the airlines employed increased financing measures; big sales/price cuts; increasing presence in other countries; cost reduction; making the airline's product unique and different from those of others; coming up with new services and improving product quality. Strategies like expenditures in ICT; laying-off of employees; efforts towards Mergers and Acquisitions; raising prices; reducing service/item range and venturing into businesses outside aviation were least used.

5.4 Limitations of the Study

This study has several limitations that make the finding not foolproof. First, the Likert scale which is highly qualitative. This meant that the responses provided may be no more than mere opinions of the respondents and not necessarily the situation on the ground. The Likert scale is highly dependent upon the rationality status of the person providing the response. It is possible that if the questionnaires were given to other officers in the same companies, the results would be significantly different.

The findings only address a specific instance in time, that is, the time when the questionnaires were completed by the respondents. Strategic management itself, by nature, being a highly dynamic activity dictated by the ever changing factors in a business internal and external strategic environment, limits the universalization of the findings of this research across time, across industries and across countries.

5.5 Suggestions for Further Research

The findings of this study can be improved if more empirical methods can be used to establish for example the market share, financial structure, the strengths of the forces of competition and such. Since this study was mainly based on the Likert scale and on the opinions of the respondents, an improvement can be made if the use of historical data.

The study can be repeated in other countries that have similarities with Kenya to establish if the situation is the same as in Kenya. The sample and the population of this study was mainly Kenyan. A study can be conducted to determine whether locally owned airlines in East Africa also face the same challenges the airlines in Kenya face, and if the responses are similar.

Further, the study can be repeated some other time later to assess the changes that might have occurred. Due to the dynamic nature of strategy and challenges of competition, the study can be repeated at a later time to determine whether the challenges found in this research and the responses still hold.

5.6 Recommendations for Quality and Practice

Due to the findings of this study the following recommendations are provided. There is need for the airlines to use modern technology to reduce the dominance of the market by few firms. This can be done by establishing the root cause of the dominance and coming up with methods of countering these causes. This is because dominance tends towards monopolies which may make prices high and present a limiting effect to new entrants of the market as has been evident in this study.

Affirmative actions by economic policy makers can be provided to enable the weaker local airlines to strengthen them in order to allow them compete fairly with the larger competitors-local or international. These actions may include taxation incentives, construction of higher standard local airstrips, providing environment that will encourage local tourism through use of air transport among others.

The Kenyan airlines should capitalize on the position of Kenya in the region and do more to extend their business influences across the countries in the East, Central and Southern African region. This will help the firms avoid unhealthy competition activities in the Kenyan market.

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APPENDICES

Appendix I: List of Kenyan Companies in Aviation Industry

1 748 Air Services

2 African Express Airways

3 Airkenya Express

4 ALS - Aircraft Leasing Services

5 Astral Aviation

6 Blue Bird Aviation (Kenya)

7 CMC Aviation

8 Delta Connection (Kenya)

9 East African Safari Air

10 Fly540 5H

11 JetLink Express

12 Kenya Airways

13 Safarilink Aviation

14 Mombasa Air Safari

Source: Kenya Civil Aviation Authority

Appendix II: Letter of Introduction

Received from 748 air. Service

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 23/7/2012

Competitive strategies Adopted by Local Airline companies in Kenya.

TO WHOM IT MAY CONCERN

The bearer of this letter CHRISTINE OKWACH

Registration No. D61/62732/2010

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

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

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
23 JUL 2012
MBA OFFICE
P.O. Box 30197 - 00100, NAIROBI

IMMACULATE OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

Appendix III: Questionnaire

Please answer all questions honestly according to the given instructions

SECTION A: GENERAL INFORMATION

Complete this section by filling in the spaces

1. How many people has your airline employed? _________________________

2. How many branches do you have in Kenya? __________________________

3. For how many years has your airline been operating? ___________________

4. What does your airline deal in? Tick as appropriate.
   a) Passengers
   b) Goods
   c) Both passengers and goods

5. What is your airline's percentage market share in Kenya? (Tick appropriately)

Less than 10%	
Above 10% but less than 30%	
Above 30% but less than 50%	
Above 50% but less than 70%	
Above 70% but less than 90%	
Above 90%	

6. In which other countries are you having a presence?

Uganda	
Tanzania	
Democratic Republic of Congo	
Burundi	
Other (specify)	

7. Do you have a market research or business development unit in your airline?

YES____ NO____

8. What is the percentage of debt in the capital structure of your airline?

(Tick appropriately)

0% to 10%	
11% to 20%	
21% to 30%	
31% to 40%	
41% to 50%	
51% to 60%	
61% to 70%	
71% to 80%	
Above 80%	

9. What is your estimated market share based on customers served?

0% to 20%	
11% to 20%	
21% to 30%	
31% to 40%	
41% to 50%	
51% to 60%	
61% to 70%	
71% to 80%	
Above 80%	

SECTION B: CHALLENGES FACED BY YOUR AIRLINE

To what extent does your airline experience each of the following challenges from competition? Please tick as appropriate.

(Key: 1= not at all; 2= little extent; 3= moderate extent; 4= great extent; 5= very great extent)

	1	2	3	4	5
1. Low cost services from competitors					
2. Loss of customers to other airlines					
3. Competitors offer a wider range of services					
4. New airlines entering the market					
5. The services offered by competitors are unique					
6. Loss of staff to competitors					
7. Price wars with competitors					
8. Challenges from the main providers of supplies to your company					
9. Wider branch networks of competitors					
10. Challenges from the major customers					
11. Challenges from competitors' marketing activities					
12. Retaliation from competitors when your airline changes strategy					
13. High costs of customers switching from a competitor to your airline					
14. Strong brand name of competitors					
15. The dominance of few competitors in the market.					

Other (specify)

a) ____

b) ____

c) ____

SECTION C: COMPETITIVE STRATEGIES

To what extent does your airline employ each of the following competitive strategies to cope with competition in aviation industry? Please tick as appropriate.

(Key: 1= not at all; 2= little extent; 3= moderate extent; 4= great extent; 5= very great extent)

	1	2	3	4	5
1. Widening the current network of branches					
2. Coming up with new services					
3. Increase expenditure in marketing					
4. Recruit more staff					
5. Increased Financing					
6. Expenditure in ICT					
7. Effort in repositioning of the airline					
8. Cost reduction					
9. Expenditure in R&D					
10. Effort towards Merger and Acquisition					
11. Big sales/price cut					
12. Lay off employees.					
13. Raise Prices					
14. Improve product quality					
15. Out-sourcing of work					
16. Reduce service range/item					
17. Making the airline's product different from those of others					
18. Provide service to a certain market segment					
19. Increasing presence in other countries					
20. Venturing into businesses outside aviation					

Other (specify)

a) ____

b) ____