

ANALYSIS OF FACTORS THAT HAVE MADE KENYA
AIRWAYS CONTRIBUTE TOWARDS
INTERNATIONAL BUSINESS

BY

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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 D a l C . J ^ 1 * ? .

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This Management Research Project has been submitted for examination with my approval as the university supervisor.

Signed r ^ f ^ . L D«. c . M z H Z l W y

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DEDICATION

I dedicate this work to my wife Carolyn and my children, Jason and Gracie. They gave me exemplary support throughout my studies.

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ABBREVIATIONS

I; AC	- East African Community
KQ	- Kenya Airways
KLM	-KLM Royal Dutch Airlines
CEO	- Chief Executive Officer
JKIA	- Jomo Kenyattu International Airport
IPO	-Initial Public Offer
AI'RAA	-African Airlines Association
IAI A	- International Air Transport Association
ACHL	-Africa Cargo Handling Limited
KAMI.	•Kenya Airfreight Handling Limited
B777	-Boeing 777
B787	-Boeing 787
BA	•British Airways
I(T	•Information and Communication technology
IT	•Information Technology
0/11	-September 11* 2001
USA	- United States of America
CSR	- Corporate Social Responsibility
WTO	-World Trade (frganisation
EU	•European Union

ABSTRACT

(jelling it right in the highly competitive global airline industry depends on key (actors aimmg them competent start", sound management and careful selection of strategic partners.

Kenya Airways has come along way since 1980s when it was almost insolvent. In mid 1990s, as it was struggling to survive under market liberalisation, the government stepped in and decided to turn the national airline round with the help of outside consultants.

Oncc the airline was put in sound footing, it got a strategic partner, M VI Royal Dutch Airlines who made financial investment as well as giving operational and technical support. From then on. the airline has consistently performed better and better and continues on profitability and expansion path. In contrast, most other airlines in Africa are not doing that well. Most have no expansion programmes or erticiency improvement and some ore reporting financial losses,

Globalisation was recognised as a phenomenon that has most contributed to the breaking down of trade barriers between nations thereby increasing the free participation in international business of international firms and nations themselves. Under globalisation, information technology has rapidly developed and has been widely used by companies as business support system. With e-commercc, e-mail and various accounting systems whose backbone is IT , business operation and procedures have been revolutionised, greatly contributing to the expansion of international business. It is easier, cheaper and more reliable to manage far off businesses from a central or regional office than it was 15 -20 years ago. Globalisation has also given rise to expansion in transportation systems . especially air transport where technology based aircrafts have been produced which are faster and comfortable to the passengers. Since

the world is reducing into a global village, many people are easily travelling from one location to the other more frequently. Tourism has also nourished under globalisation which has directly benefited the airline industry

The underlying assumption in this study was that there were factors that made Kenya Airways operate so successfully and in the process increase its participation in international business.

Data was collected from selected KQ employees who are in a position to understand the state of business operations and the strategies in place to achieve corporate goals.

The research design utilised a case study method since this study required in-depth details of the factors that have enabled the organisation to succeed. Questionnaire was the main instrument of collecting data with structured questions, both close ended and open ended type of questions. Content analysis method was used in analysing the collected data.

The findings revealed certain factors that were repeatedly mentioned by the study respondents as being behind the success of the airline. These were taken and further analysed on their content for the success of KQ. Among the key factors mentioned included the strategic choice of partnerships, application of IT, staff competence through training, globalisation effects and sound top management composition.

CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 Internationalization of business

International business includes all business transactions that involve two or more countries (Daniels, 1989). The major motivations for firms to engage in international business include expansion of sales, acquisition of resources and diversification of sources of sales and supplies (Daniels, 1989). Sales are limited to a number of people interested in a firm's products and services and a customer's capacity to make purchases. Since the number of people and the degree of their purchasing power is higher in the world as a whole, firms may increase their sales potentials by defining markets in international terms.

Firms seek products, finished goods and services as well as components from foreign countries to reduce their costs. This leads to profit margins being increased or cost savings passed to customers thereby permitting more people to buy the products or services.

Another major consideration is that firms prefer to avoid wild swings in their sales and profits, so they seek out foreign markets and procurements as a means to this end. For instance sales may decrease in one country but increase in another that is undergoing recovery.

1.1.2 Factors that lead to Internationalization of business

International business operations depend on certain factors to operate efficiently and successfully. They are mainly operational factors hinging on the infrastructure support systems such as international financial and banking institutions, transportation, communication as well as material support such as labour, capital and raw materials. An essential decision facing an international firm is where to locate its business activities to achieve the goals of minimizing costs and improving product quality. Hill (2006) advises

that for a firm contemplating entering international business, a number of factors must be considered and these include country factors, technological factors and product factors. Country factors include political economy, social cultural setup and relative costs, which influence the benefits, costs and risks of doing business in a country.

According to the theory of international investment, firms may want to invest in another country for various reasons (Dr Ogutu, class notes, global strategic management, 2006).

These reasons are classified into three major categories; firms are viewed either as seekers, exploiters of imperfect markets or internalisers. It means that firms often invest in foreign countries because of existing unique valuable natural resources, low cost of labour, access to technical or competitive skills and political stability or security to allow firms continue operating unfettered. These factors have played a great role in enabling multinational companies to do business in developing countries as there is abundant availability of labour and raw materials.

Yabs (2006) has also pointed out that factors that most often affect business environment of international business include, economic forces, physical forces, social-cultural forces, financial forces, labour forces and legal forces. The main component of economic environment that is international trade factors such as balance of payments, exchange rate and regional groupings. It also includes level of economic development, urbanisation and infrastructure development such as roads, rails, airports, telecommunication.

For international firms such as airlines, there are strategic factors that have made it possible for them to participate in international business successfully. These include globalisation, strategic choices such as partnerships and alliances, advances in science and technology, developments in information and communication technology, sound managerial policies, increase in tourism and business travel and availability of international banking services.

The advent of globalisation in the 1990s has influenced the growth in international business most tremendously and fastest than any other time in history. Two factors seem to underlie the trend towards greater globalization. The first is the decline in barriers of flow of goods, services and capital and the second factor is technological change in communication, information processing and transportation technologies (Hill 2006). Under globalisation, free markets have developed as trade barriers significantly reduced, thus allowing for free international business to thrive across borders. Thus many firms have entered the international business helped by the effects of globalization.

Developments in science and technology have influenced and accelerated the rate of economic development of countries, contributed to the expansion of firms and greatly influenced the conduct of international business (Hill & Jain 2006). Many international organisations in various fields such as air transportation, manufacturing and production, have embraced modern technology as a tool to support its improvement in service delivery and business expansion.

Collaboration between competitors through strategic alliances became fashionable in the last decade or so. Yabs (2006) says that private and public firms in Kenya formulate their plans through generic strategies and then choose from appropriate alternative or grand strategies. The most popular strategies that have been used include strategic alliances, outsourcing, horizontal and vertical integration strategies. Strategic alliances allow firms to share fixed costs and also helps them to establish technological standards for the industry that will benefit the organisation (Hill & Jain, 2005).

Since the end of World War II, the world has seen major advances in communication, information processing and transportation technology, including the explosive emergence of the internet and World Wide Web (Hill & Jain 2006). Over the last 30 years, global communication have been revolutionised by development in satellite, optical fibre and

wireless technology. This technology has enabled the explosive growth of high-power, low-cost computing, vastly increasing the amount of information that can be processed by individuals and firms.

1.2. Aviation Industry Overview

Aviation refers to airborne transportation using aircrafts. Its development started early in the last century and was first functionally tested in World War II. Since the 1970s, aviation industry has been popularised through the expansion of commercial transportation of cargo and passengers. In the 1980s and 1990s, due to rapid integration of the economics, there was increased trade and access to alternative supply sources, labour and capital mobility, all of which largely depended on aviation transportation to be realised. On the other hand, there was increased competition and stringent quality standards for services within the industry leading to many industry players engaging in innovation and customer focus as a way of maintaining a competitive position.

At the time commercial flights were started, airlines were largely state owned and formed the main link between the domestic markets and the foreign trading system. Being national assets, they were heavily sheltered from competition by their governments through government regulations, protection and subsidy which accorded them undue advantage over privately owned airlines (The Economist June 1993). New entrants were therefore severely curtailed since priority was given to national carriers during the bilateral negotiations for aviation operation. This mode of operation changed radically in the 1990s when economic liberalisation set in. Businesses were forced to open up under the newly launched liberalization and this exposed the hitherto protected national carriers. They had to change strategy in the way they were doing business because profitability started falling massively. Challenges brought by economic liberalization and globalization required

change in strategy in order to maintain competitive edge. A number of national airlines immediately started enacting aggressive restructuring programmes for the survival of their businesses.

However, as they were about to turn the corner with these programmes, new industry threats in the form of airborne security threats and operating costs emerged. In recent years and specifically since the terrorist hijack of aircraft* in 2001 in USA, the airline industry worldwide has been in turbulence. Furthermore, the aviation fuel cost has almost doubled in the last one year alone, eating into the profitability of the airlines and forcing many of them to scale down their operations as a way of managing the high costs. These are some of the challenges airline managements have been grappling with since 9/11 which precipitated turbulence in the industry worldwide. Aosa (1992) says that environmental turbulence tends to pose challenges to management. In order to remain relevant, a business has to continuously monitor its internal and external environment, utilizing organisational strength and internal capabilities in dealing with threats and challenges posed by the external environment (Porter 1980).

In the last five years, airlines are increasingly asking their governments to negotiate for liberal free sky regime, referred to as open sky policy. This will enable airlines to fly to any destinations without hindrances. This policy is being negotiated bilaterally by various countries and economic blocs. In early 2008, European Union (EU) countries signed the agreement with United States of America (USA) and Kenya was among the first African countries to sign the 'open sky' policy agreement with USA in mid 2008.

1.3 Kenya Airways*

Kenya Airways (KQ) was established in February 1977, following the break up of the East Africa Community (EAC) and subsequent disbanding of the East Africa Airways which

was owned by I-AC. The airline operates schedule services to Europe, Asia and Africa. The Kenya Airways group is made up of the main airline, Kenya Airfreight handling Limited* (KAHL), Ken cargo limited and African Cargo Handling Limited (ACH).

The airline has overcome challenges and undergone major transformation since its formation to become a major airline in Africa with links to key world airlines. In the 1980s and early 1990s, KQ was almost insolvent and was struggling to survive. It had internal challenges such as overstaffing, predominant government working culture, bureaucracy, operational inefficiency and frequent flight delays among others. On the other hand, the airline was faced with external challenges such as increased international competition, operating old equipment, inability to keep up with new technology and government interference in its commercial decisions.

In 1993, the government of Kenya made a decision to genuinely turn the national airline around with the help of Speedwing, a British Airways consultancy company. Once the airline had been put on a stronger footing in 1993, it attracted the equity investment from KLM Royal Dutch Airlines along with management and technical support. In the same year, the airline issued an initial public offer (IPO) of its shares to the public.

In 2003, Kenya Airways acquired 49% of shareholding of Precision Air, a medium sized Indian company, with potential for growth. In 2004, the airline started its expansion programme for both equipment and route network which, by 2007, had resulted into 10 new routes and 1 new ultra wide body Boeing 777-300ER type of aircraft.

In 2007, KQ joined the prestigious SkyTeam group as an associate member. Members of the SkyTeam include KLM Royal Dutch Airlines, Air France, Delta Airlines, Alitalia among others.

The airline has recently undertaken a serious modernisation of its fleet and now owns some of the most modern aircraft* in Africa. The acquisition of the B777 type of aircraft over the

last 4 years has enabled the airline open long haul to Thailand and Turkey among other destinations. In its keeping with the international airline trend. Kenya Airways is among the first airlines in the world that have placed orders for the new B787 type of aircraft, currently under development.

Today, Kenya Airways operates a fleet of modern technology aircraft, has a growing African and international network, impressive financial results and is delivering value to its shareholders.

The main Kenyan airport, Jomo Kenyatta International Airport (JKIA) at Nairobi handles international and domestic flights coming into and departing from Kenya. Most of the flights originate from Europe, Asia and other African countries. JKIA operations have grown tremendously in the last decade, with new airlines starting operations into the airport yearly while existing ones increased their flight frequencies.

Taking advantage of this growth, Kenya Airways has transformed JKIA from a national airport to a regional passenger and cargo handling hub, deploying its smaller aircrafts to bring passengers and cargo from regional capitals to JKIA, from where they are flown to various destinations worldwide. Some national airlines from the region have also fitted in very well as feeder airlines to the hub. This venture has positioned the airline well enabling it to take advantage of the regional traffic, thereby increasing its participation in international business.

1.4 Statement of the Research Problem

In any country worldwide, airline industry plays a major role in the country's economic development since it links the domestic economy to the international market. Airlines, by their very nature are international firms and employ various strategies in dealing with the international business environment. Companies succeed when strategies adopted for the

circumstances they face are feasible in respect to their resources, skills, capabilities and desirable to the stakeholders. For airlines, these strategies are influenced by globalisation, strategic choices, technological advances and developments in communication systems. Yobs (2008) predicts that due to globalization, many countries will be close together and their economics will be affected by what is happening in other economies. Firms involved in international business will be the agents of economic connectivity and Kenya Airways is one such agent. The airline's contribution to the Kenyan economy and participation in international business is vital and valuable.

The overall research problem addressed in this study was that despite the successful performance of Kenya Airways in the aviation sector, little had been done to clearly understand the factors that made it succeed and to participate in international business.

Richard McC'abc (2005) did a study on the performance of the airline industry in the U.S.A. In his research report (Internet: Airline industry key success factors), he said that the industry was in a chaotic state for a number of years up to 1993. He found out that the industry had lost huge amounts of money over the years, and it had never made a sustained, substantial return on investment. The loss from 1990 through 1994 was about \$13 billion, while from 1995 through 2000, the airlines earned about \$23 billion and then lost about \$35 billion from 2001 through 2005. Although the study focussed on the USA airlines and their performance, the factors that influence performance of airlines are fairly common and can be replicated elsewhere. Furthermore, with globalisation, the airline industry is largely interconnected such that events taking place in one side of the world can be felt in another part. McC'abc (2005) concluded that to be successful, an airline must be effective in four general areas: 1) attracting customers, 2) managing its fleet, 3) Managing its people and 4) managing its finances.

Locally, studies on the airline industry in general and KQ in particular have been very few. Ihiga (2002) did a study on the strategic responses of airlines operating in Kenya in the face of changing environmental conditions. The study concluded that many airlines had adopted various strategic responses such as retrenchments, business re-engineering, mergers and strategic alliances in order to survive, This study however focussed on the international airlines operating into Kenya and specifically excluded KQ.

Another study by Gichira (2007) on the impact of globalisation on KQ concluded that the company faced a lot of challenges associated with globalisation. The study further showed that KQ had managed to stay ahead of those challenges through adaptation of technological tools to make it competitive in the global market. This research was limited to the challenges faced by the company in the face of globalisation while the present study is entirely focussed on establishing and analysing the factors that have made the airline successful, thereby enabling it to contribute to international business.

This study is therefore intended to answer the following questions;

- i. What are the factors making Kenya Airways succeed in its business operations?
- ii. How do these factors influence Kenya Airways' participation and contribution to international business?

1.5 Objective of the study

The objective of the study is to analyse the factors that have made Kenya Airways contribute to international business.

1.6 Importance of the study

The results from the study will be of interest and beneficial to the following;

Kenya Airways They can maintain, abandon or apply the study findings for to enhance management of the company.

Other airlines. To visualise and select those factors they can utilise in order to improve their operations.

Government agencies. May use the study to formulate national policies touching on airline industry and international business.

Future researchers. Can use the study as a reference on the success factors in airline industry and can also be a basis for further research.

Investors. For decisions on the suitability and potential of Kenya Airways for investment.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction.

International business environment is an important aspect of the outside business investment and operations. Hall et al (1998) define environment as all the forces surrounding the life and development of an organisation. A firm's business environment can change rapidly or the changes may be gradual, giving an opportunity for developing strategic responses to counter any adverse effects, Environmental changes bring with them opportunities which firms take advantage of to increase the scope of their businesses and perform better. In other cases, the changes may bring disastrous consequences which can knock out a firm from business altogether.

Factors emanating from the business environment worldwide have either posed challenges or opened opportunities for organisations. Cole (1997) observes that in recent years, several factors have contributed to the importance of strategic dimension of management in international business. They mostly arise from the changing external environment in which organisations operate and include the following; Increased customer expectations in terms of quality and range of consumer goods and personal services, rapid advance of microelectronic technology which has revolutionised many processes by which goods and services are made available, increased competition in domestic and world markets, greater emphasis on consumers' rights such as safety, reliability and better information, vast improvement in worldwide communication systems, enabling faster flow of information between consumers, suppliers, agents and others

2.2 Factors Influencing Internationalization of business

2.2.1 Globalisation

A fundamental shift is occurring in the world economy (Mill & Jain.2005). Globalisation

has increased the opportunities for a firm to expand its revenue by selling around the world and reduce its costs by producing in nations where key inputs are cheap. Mill and Join (2005) say that countries are moving towards a world in which barriers to cross-border trade and investment are tumbling, perceived distance 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 one independent global economic system. Rapid economic growth in developing countries and market saturation at home have made globalization a strategic imperative for established firms to grow their business. They see their strategic advantage in terms of building a global brand, realizing economies of scale and leveraging skills across national borders

2.2.2 Transportation

International trade and investments have been greatly facilitated by the modern transportation system. Several major innovations in air transportation technology have occurred since World War II. In economic terms, the most important are probably the development of commercial jet aircraft and super freighters. Hill (2005) observes that the advent of the commercial jet travel has effectively shrunk the globe by reducing the time needed to get from one location to another. Air transport has become a crucial link in international trade and as a result the industry has itself been highly developed over the years to meet the demand and standards of the international business operations. In particular, there has been development on the aircraft* making them comfortable, spacious, fuel efficient, technology dependent and faster. Similarly, the ground handling facilities and equipment for aircraft, have also seen major developments worldwide such as construction of new and modern airports, fitted with sophisticated aircraft handling equipment and passenger processing machines

2.2.3 Information Communication technology

Renato (WTO press release. 19%) observes that telecommunication is creating a global audience while transport is creating a global village. Advances in Information Communication Technology (ICT) and transportation have provided a vital linkage in the merging of world economies into one system, leading to an increase in goods and services that are offered in the international market.

l-normous strides have been made inn the development of global satellite communications, electronic mail, facsimile transmissions and other micro-electronic technology. Such technological development have helped international commodity trading and money markets to improve the speed and efficiency of their services to the international trading community, all of which help facilitate the growth of world trade(Colc 2006).

2.2.4 Strategic Chokes

The ability for airlines to succeed today is measured according to several key success factors (McCabe. 2005). Strategies arc industry specific, functional and flexible, all aimed at getting maximum return on investments. Strategic planning ought to he incorporated within the three levels of strategy namely corporate level, business level and functional level. Pcarcc & Robinson (1997).

Ansoff & McDonnel (1990) state that management is a pragmatic and a results oriented activity. Strategic planning, when properly installed and accepted by management, produces superior improvements in performance (Ansoff & MacDonnel (1990). The top management of organisations should consist of individuals who are qualified and with considerable years of professional management experience. With this executive resource in place, an organisation is likely to implement strategies that can enable it to move forward successfully In such situations, equipment and facilities are optimally utilised

while customer service receives focus as the key component for success and distinction in the industry.

The airline industry in Kenya has evolved fast in the recent past due to many players who have been given licences to operate. Kenya Airways is a dominant and leading player in the region, but it faces competition from regional small carriers as well as from the global airlines coming to JKIA, Nairobi. Kantor (HBK Sept/Oct 1995) observes that sweeping changes in the competitive landscape including the presence of foreign competitors in domestic markets are drawing business to rethink their strategies and structures beyond traditional boundaries. At the same time, increasing numbers of small and mid size companies are joining corporate giants in striving to exploit international growth markets. Indeed many small airlines operating locally and regionally have entered the market recently. Mill and Gareth (1999) define potential competitors as companies which are not currently competing in an industry but have the capability to do so if they choose. As a general reaction, incumbent companies try to discourage potential competitors from entering the industry. Amram and Kulatilaka (1999) say that today's investment changes the rules of the market or tilts a market outcome toward one competitor and requires insights from models of strategic market interactions with real options models. Pre-emptive investment opportunity can be viewed as the purchase of a 'strategic growth option'. Amram & Kulatilaka (1999). This option allows the capture of the upside of a potentially good market and also has the strategic effect of influencing competitor behaviour. Investments create capabilities to possibly take advantage of future growth opportunities. There is a tendency by big airlines to buy into smaller successful airlines in order to benefit from their growth in the future. This is the case recently with South Africa Airways / Rwanda Air Express on Johannesburg-Kigali route. Kenya Airways / Precision Air on the Kenya/Tanzania routes and in Europe KLM/Air France in international routes.

2.3 International Business

International business has influenced the pace of economic development of countries as a result of development in science and technology. It has grown rapidly in the recent past due to globalisation, which has increased integration of national economic systems through the growth in international trade, investments and capital flows. The first great expansion of European capitalism took place in the 16th century. This was after the circumnavigation of the earth in 1519 to 1521. After Second World War, there was another great expansion of capitalism with the development of multinational companies interested in producing and selling in domestic markets of nations around the world. Air travel and the development of international communications enhanced the progress of international business. The development of internet in late 1990s made it possible for the organisation of business on a global scale with greater flexibility than ever before.

International business has evolved over the years and its theories formulated at specific time periods and events in history. The theories largely agree that international business is beneficial to the country but differ in their recommendations for government policy (Hill and Jain, 2005).

In the mercantilism theory, measurement of wealth of a nation was based on the amount of gold the country had in its possession. There is tendency for some countries to practice this theory even in modern times, referred to as Neo-mercantilism.

Some countries have absolute advantage in the production of certain goods or services and therefore those countries should specialise in those goods or services. This was proposed by Adam Smith in the book "An inquiry into the wealth of a nation. Smith (1776).

The theory of natural advantage states that some countries are endowed with natural wealth and by developing and enhancing these possessions, the country could participate in

international business. Natural wealth include oil, wildlife, physical features and mineral deposits.

The theory of comparative advantage was proposed by David Ricardo in 1837. It says that a country can specialise in producing those goods in which it has comparative advantage and import those that it does not have advantage in. This theory provides a strong rationale for free trade.

2.3.1 The process of internationalization of business

Kotler (1985) sees four stages of internationalisation of business, ranging from domestically based reactive trading with foreign countries to full multinational operations on a global scale. A company can export goods or services from home base. This approach works well where there is no real substitute product available locally. A firm can also establish a franchise where the local franchisee takes responsibility for sales and specific aspects of marketing locally, leaving the parent company to provide the business framework and the brand name. This enables the firm to achieve significant investment without excessive capital outlay and minimising local or national bureaucracy. Examples of firms that have followed this process include McDonald's fast food chain, The Pizza Hut and Hertz car rental. A firm can also set up a manufacturing plant or business centres in the overseas countries making the same or similar goods and services as in the home country. Examples here include Coca Cola bottling plants around the world and motor manufacturing companies such as Toyota and Nissan (Hill and Jain, 2005).

2.3.2 The benefits of International business

The sheer size and wealth of multinationals means that they can have a significant effect on their host nations. For example, the large oil firms Exxon Mobil, Shell and BP are

larger in economic terms than nations such as South Korea, Austria and Argentina(Cole 1997).

Most of their effects are beneficial and include the following; Provision of capital investment in major economic activities that would be beyond the scope of the nation concerned. Contribution to the creation of jobs, usually in the context of high unemployment. Making available a wider range of products to customers. Improvement of the nation's balance of payments following the export of goods and services. Introduction of new technology, Supply of scarce skills and passing them to nationals and a contribution to social needs such as road building, water supply plants, power generation.

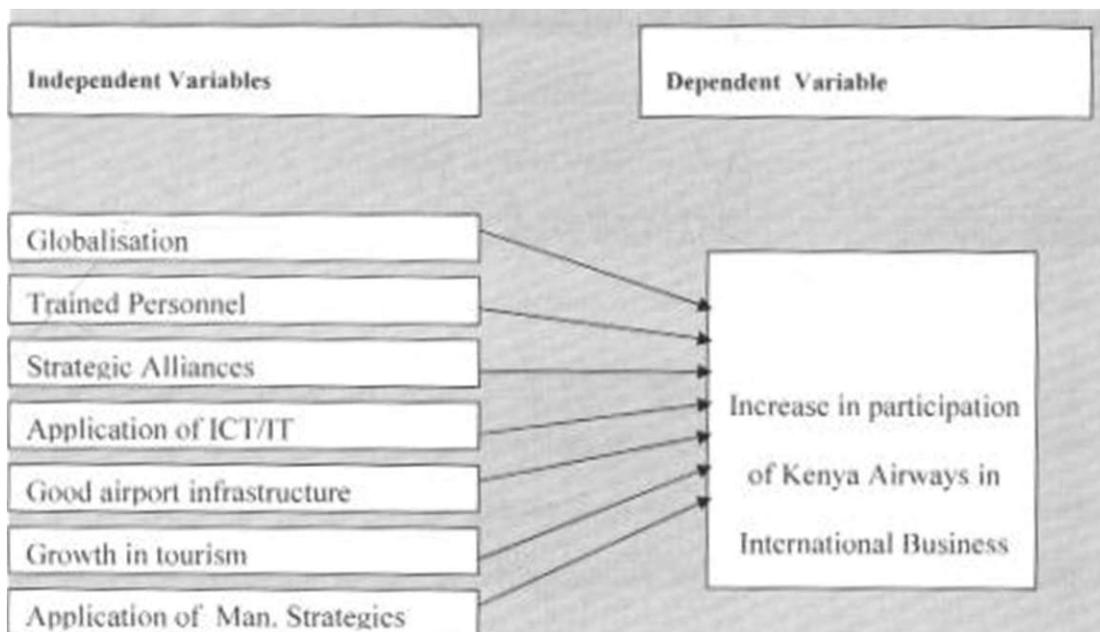
Locally, Magadi Soda, a multinational company located in a dry area in the Rift Valley region of Kenya, exemplifies such benefits. The company has developed a town in the remote part of the country, built a road connecting to the capital city Nairobi and provided electricity and water to the residents. The company occasionally supplies water to the villages during very dry spells. Other multinational firms such as Kenya Shell Limited are involved in supporting education for young people. The company sponsors Starehe Boys Centre, a secondary school that admits poor but bright students. The company also introduced a scheme in which it sponsors the best graduate student in the architecture and engineering from Kenyan Universities to undertake further studies at a university in the United Kingdom.

Communities also benefit from various corporate social responsibilities (CSR) run by a number of multinational organisations in the country in such areas as water and sanitation improvements, environmental clean up and upgrading of educational standards.

2.4 Conceptual framework

The usefulness of the conceptual framework as a research tool is illustrated by the researcher's ability to identify and account for occurrences of actions and behaviour in one's data through the descriptors in the framework (Smyth, 2004). Kombo and Tromp (2006) suggest that a conceptual framework indicates the effect of the independent variable (cause) on the dependent variable (outcome). For airlines operating as international firms such as Kenya Airways, there are various factors of business, which manifest themselves as strengths and opportunities to be taken advantage of for their success.

The conceptual framework is shown below.



Globalization effects

Globalization refers to the shift toward a more integrated and interdependent world economy. Hill (2005). falling barriers to cross-border trade have made it easier to sell internationally, this phenomenon has led to many countries such as Kenya, competing in the world market, selling its products. Products like coffee, tea and flowers earn the

country foreign exchange as they are sold at the international market. Tourism industry has flourished under globalization, directly contributing to air travel which translates to business for airlines. As the country participates in international business, its import of goods that are not locally available has also increased. Some of the goods, mainly electronic gadgets and components, are transported by air into the country.

Strategic Partnerships and Alliances

Strategic alliances allow for collaboration and agreement between two or more firms for the purpose of implementing planned strategies. Porter (1985) says that there are 3 generic strategies for a firm to achieve above average performance:- cost leadership, product differentiation and specialization focus. Cost leadership strategy aims at achieving overall lower costs than one's competitors without reducing comparable product quality hence achieving economies of scale. In the airline industry, alliances enable airlines achieve economies of scale especially in the purchase of aircraft spare parts and maintenance through discount negotiations. It also provides a base for resource sharing and optimisation in such areas as ground handling, bookings, check-in and engineering thus reducing operational unit costs. Strategic alliances are good bases for technology transfer from the more successful partner institution of pricing, success market initiatives as well as learning of best practices which ultimately helps improve the performance of the airline.

Information & Communication Technology

The modern firm relies heavily on information and communication technology (ICT) to carry out its operations. ICT involves a whole range of activities from installing applications to designing complex computer networks and information databases. Some of the duties that IT professionals perform include data management networking, engineering

computer hardware, database and software design, as well as the management and administration of entire systems. The applications of ICT include e-commerce, electronic mails and video conferencing all of which have made the operations of businesses faster, more effective and reliable.

In recent times, airlines have heavily adopted technology in the air transport equipment. Airlines such as KQ, HA, KLM and others have recently acquired state of the art aircrafts equipped with the latest technology such as the Boeing triple seven (B777). These aircrafts have the latest aviation technology, including auto-piloting, in-flight entertainment, increased passenger comfort and other safety features. Currently, Boeing Aircraft Manufacturing company of the USA, is developing a high technology aircraft, the Boeing Seven Eight Seven (B787) commercially nick named the "dream liner" which will be complete and put in service by 2010.

Growth in tourism travel

Kenya is a popular destination for adventurous tourists especially those interested in safaris, due to its reputation worldwide for exotic wildlife. Growth in Kenya's tourism sector has had a positive effect on the business performance of airlines and other air operators. The number of tourists visiting the country has risen steadily over the past two years, peaking to 1.8 million in 2007 compared to 1.4 million arrivals in 2005 (Business Daily July 2008)

Airport facilities

Availability of good and dependable facilities at the national airport are crucial for international operations and business connections for airlines.

JKIA is the largest and busiest airport in East and central Africa. It serves as a transit hub for major airlines as well as a gateway to Africa's treasured game parks, cultural heritage, scenic landscapes and business opportunities. The airport is situated 20 minutes from Nairobi central business district and is served by shuttle services, taxis and other commuter services (www.kenyaairports.com/jkia/indexikia.php).

Development and Training of personnel

Human resources management is one of the important support activities in Porter's model of the generic value chain. Morrison & Wilson (2003) say that in a strategically managed organisation, top managers accept changes as a permanent condition. The CEO of a strategically managed organisation must be able to instil in the organisation the strategic vision so that the organisation's members are able to think big and act big. Managers must be superb at continuously adjusting competitive strategy, organisational structure and operating conditions as the market place demands. This can be done more effectively if they have been trained. A number of organisations have taken up training of their employees as a way of increasing efficiency and meeting customer demands. Hill (2006) says that management development is intended to develop a manager's skills over his career in the organisation. It is increasingly common for firms to provide general management development programs in addition to training in particular posts. Management development is seen as a tool to help the firm achieve its strategic goals (Hill 2006).

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Design

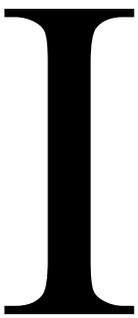
The research problem was studied using a case study design as it was aimed at getting a detailed account of the factors that have made Kenya Airways successful, enabling it to contribute to international business. Kombo and Tromp (2006) aver that a case study design should be used if one intends to analyse an issue in detail.

3.2 Data Collection

Both primary and secondary data was used during the study. Secondary data was obtained from the company's company records such as annual financial reports, press releases, general information from company's newsletters and website.

Primary data was collected by interviewing selected company employees in senior positions using a questionnaire guide. All heads of departments serving immediately below the director level were the study target. This group is well placed in implementing strategy and are first in management line to observe the company's performance. They were thought to have detailed understanding of the business and therefore likely to give a representative and useful information on the study.

Both structured and unstructured questions were administered to the respondents. The first part of the questionnaire captured respondent details. The second part covered the factors making the company successful, while the third part dealt with participation in international business. A letter of introduction was issued to every respondent during the interview.



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3.3 Data Analysis

The data collected was analysed using qualitative content analysis technique. This method was suitable and appropriate for this study as it systematically describes the form or content of written and spoken material. Kombo and Tromp(2006) say that content analysis examines the intensity with which certain words have been used, the recording of information was coded and classified. In the analysis figures have been presented in tabular form while percentages of mean have been obtained quantitatively.

4.1 Introduction

This chapter covers analysis of data and research findings from the study. The research targeted all the heads of departments who serve a rank below the directors. In total they were 19 and 16 of them were available for the interview, representing 84 % of the target population.

4.2 Factors leading to Kenya Airways Success

The researcher sought to find out from the respondents the factors that have contributed to the company's success in the last 10 years. From the responses, over 80% said the biggest factor was the initial privatisation of the company in the early 1990s. Most concurred that this was a major factor which had a roll-on effect as it formed the foundation on which other success factors came into play. Based on these factors the airline has generally effected service delivery improvements and strategic plans which have led the company into making profits.

Other factors mentioned include:

- **Company Management.** The top management level at Kenya Airways consist of individuals who are highly qualified in their fields of learning and with years of professional management experience. With the consistent and rarely interrupted leadership, KQ has managed to develop and implement strategies in all business areas which have enabled the organisation to move forward with speed and success. Getting it right in a global airline industry depends on key factors such as sound business plan, shrewd management, competent staff, no government interference in commercial decisions and careful selection of strategic partner* (Africa Aviation journal Nov 2007).

Globalisation. The effects of globalization present great opportunities for growth and expansion for **KQ**. Globalisation has led to the breakdown of trade barriers between nations thereby increasing international business. Under globalization, many countries such as Kenya are now selling their products in the international market including cut flowers, fresh produce as well as promotion of tourism, directly contributing to air travel.

Strategic Alliances. Kenya Airways entered into a strategic partnership with KLM Royal Dutch Airline in a strategic move to help the airline improve its services and extend its market outreach. KQ has also bought 49% shareholding of Precision Air, a successful Tanzanian operator to enable it complement service its regional network

Application of IT. Kenya Airways has embraced modern technology as a tool to support its improvement on service delivery and network expansion. For instance, some operational services have recently been computerised and can now be done online. They include, booking, payment, ticketing and check-in, on line.

Growth in tourism Tourism sector has continued to grow as a result of deliberate efforts by the government of Kenya to create new brand of tourism and diversification into new markets. The number of tourists visiting the country has risen steadily over the past two years, peaking to 1.8 million in 2007 compared to 1.4 million arrivals in 2005

Training of manpower. The airline values professionalism in its personnel which is the reason it has continuous training programmes. KQ has some of the most qualified staff in the region and spend a lot of resources in training.

The training and planning policies at KQ have enabled the airline to be successful as the trained staff are effective in delivering business objectives.

The importance the airline attaches to training was evident in 2007, when they opened a staff training and leadership centre (the pride centre) dedicated to developing skills and competences of both serving and joining staff.

- **New Equipment.** The modernisation of the airline's operating equipment fleet has bolstered its position as a modern carrier with safety and reliability features. The route expansion and long haul flights are dependent on the modern aircrafts, recently acquired by the airline. Furthermore, new fleet is perceived to be incorporating safety and generally in good stead of maintenance, implying assured safety.
- **Airport infrastructure** The airline depends on key ground infrastructural facilities and equipment to operate and deliver services as per its mandate. Availability of fairly modern facilities at the home airport, JKIA, has greatly supported the airline's current performance and expansion, leading to its operational success. Services at the airport include availability of reliable aviation fuel supply, parking area, passenger processing terminal, convenient shops and cargo handling facilities.

4.3 Level of competition faced by KQ locally and internationally.

	Frequency	Percentage
Very High	12	75%
Moderate	4	25%
Fairly Low	0	0
Total	16	100%

The respondents were asked to describe the level of competition faced by the company, both locally and internationally. All respondents thought the company faced some competition as none of them said KQ faced low competition. Most of the respondents (75%) said competition was very high while 25% said the company faced moderate competition. Some respondents felt KQ was strong and able to overcome competition especially in the region while majority looked at the global perspective and said the company was facing strong competition.

4 External Changes in last 10 years translating into opportunities and challenges

70% of the respondents repeatedly mentioned the following as the challenges brought about by external changes.

- Competition from the international and global airlines which have been licensed to operate into Kenya. It was observed that in the past one year alone, Virgin Atlantic, Singapore Airlines and Delta Airlines have been licensed to start operating into Kenya. These are huge global airlines with substantial financial resources and therefore with competitive advantage, furthermore, other airlines such as Emirates and Qatar airlines have increased their frequencies through aggressive marketing using vast financial resources at their disposal.
- KQ is losing trained staff mainly to the middle class based airlines. Pilots and cabin crew staff are lured by the higher pay and attractive terms offered by these airlines. It was pointed out that it costs about KSh 4 million to train one pilot and therefore the airline loses both financially and competent resources when the staff leave.

- European and Middle East airlines have aggressively taken over most of the cargo business such as fruit and flower transportation to European destinations. These foreign airlines have developed a cargo hub at Nairobi and strong cargo freight network with the neighbouring countries such as Rwanda, Uganda and South Africa . thus reducing the dominance of Kenya Airways in the region in this channel of business.
- The rapid changes in technology and its application was also cited as a challenge. The big airlines heavily use new IT for accounting, check-in and other passenger processing processes. KQ is forced to implement these systems in order to be competitive and be in line with the other airlines it associates with. This puts pressure on financial and human resources as the other airlines are well endowed with those resources.
- Increase in international fuel prices is another challenge facing the airline. The aviation fuel cost has moved from 60 \$ barrel in June 2007 to 140 \$ barrel.

Respondents also said that there were changes that have brought opportunities which the airline benefited from. The mostly mentioned were the following;

- Growth in the country's economy in the last 5 years and conducive political environment in the region have generally led to an increase in number of air travellers. This has contributed to the growth of business for the airline industry and KQ has consequently benefited
- The recent developments in IT and ICT has enabled the company to manage and control its operations much more easily and cost effectively thereby greatly improving on its service delivery .

- The era of alliances and partnerships and route code sharing has been utilised by the airline, leading to cost savings and efficient operational opportunities thus enabling the airline post profits.
- Increase in production and exports of fresh vegetables, fruits and cut flower* in Kenya has increased the cargo freight business to huropcan countries thus contributing to the airlines' growth cargo business.
- New tcchnolog) in aircraft manufacture which has seen more spacious, faster and economical aircrafts such as R777 being created, has contributed to the airline's operational efficiency though increased earning capacity and flight schedule integrity.

4.5 How has Kenya Airways has managed its staff training programmes

	Frequency	Percentage
Very well	14	88%
	2	12%
Not well	0	(1
Total	16	100%

Extnt to which the programmes ha\e contributed to the success of the company.

	Frequency	Percentage
A lot	12	75%
Fairly much	4	25%
Not at all	0	0
Total	15	100%

Almost all the respondents felt that training was conducted very well and it was beneficial in upgrading staff competence. 75% responded that the training of staff has been key in running the operations of the company leading to its success.

4.6 Kenya Airways participation in international business

The respondents were asked to rate the company's participation in international business.

Most of them said the company is strongly participating in international business.

	Frequency	Percentage
Very Strongly	13	87%
Quite strongly	2	13%
Not strong	1	6%
Total	15	100%

4.7 Kenya Airways has taken advantage of the factors and benefited

Most of the respondents felt that KQ has adequately taken advantage of favourable opportunities in increasing efficiency of its operations and expansion of its business.

They mostly cited the following;

- It was said that as part of expansion of the fleet size in the last five years, there has been corresponding belly space growth where cargo is carried. This has resulted in the airline recording steady growth in cargo business in the last 5 years which stands at 60,000 tonnes in 2008 from 30,100 tonnes in 2003. This has arisen mainly from the country's participation in international business meaning its imports for goods that are not locally available, such as electronic equipment

and machinery components has increased. All these contribute towards cargo business for air freight and KQ has taken its fair share of this business.

- Respondents also mentioned that the strategic decision for KQ to partner with KLM in 1996 and Precision Air as well as join the Skyteam Alliance in 2007, has enabled the airline improve its services, control its expenditure and penetrate the key European market. Joint operational services and economics of scale have helped cut down on operational cost and improved on efficiencies. It has also raised the profile of the company and greatly helped its penetration of the international market.
- Improving service delivery and efficiency through implementation of new and improvement of existing information system is a key business strategy for KQ. The use of ICT has made airline services flexible and easily accessible which has improved KQ's service delivery, for instance, the most recent addition of IT supported operational processes is the purchasing of tickets online, online check-in and air-to-ground Data communication system. These initiatives have greatly improved services, adding to customer satisfaction as they are both easy and convenient to use. In another system, staff productivity has been improved through the provision of secure facilities for connecting to the company's computer network from home or while on the road, this means staff do not have to travel to the offices to perform tasks on the main company computer system and this has reduced administrative costs. Enterprise Resource Planning (ERP) software package (i-prise) was recently acquired and launched by the airline. The package aims to integrate many business areas of the enterprise such as -financial, supply chain and Human Resource Management, ground support and equipment, project and facilities management and Customer relationship manager. Implementation of

this integrated system will see major improvement in department functions and increased efficiency.

Tourism growth in Kenya has provided increased business opportunity for KQ as the national carrier. In 2007, tourism arrivals grew by 9% over 2006 figures and 76% of these visitors came through JKIA. In 2007, KQ's passenger carrying increased to 2.8 million, a growth of 6% over 2006 levels.

During the 2007/8 financial period, the airline reported that it had trained a total of 250 staff from various departments at a cost of Ksh 400million. Some of the programmes delivered to staff included customer service training, personal effectiveness, leading winning teams, management and leadership training. In the same period, the firm also spent a sum of S 2.4 million for the development of the Hub Control Centre (HCC) to improve people, systems and process at the Operations Control Centre (OCC) aimed at improving efficiencies in: departments connectivity and communication, which were focussed on enabling the employees deliver on the company's business goals. In recognition of the management efforts and performance at KQ, the company won the strategic planning award during the Company of the year (COYA) awards for the year 2008. The Strategic Planning award recognized Kenya Airways as being the company that had demonstrated home-grown (local participant) strategic planning practices, and ability to swiftly align the new business realities to the changing world-wide business environment. The Human Resources director, under whom training falls, also received the award of the manager of the year as an individual.

KQ's continued expansion of its fleet has helped it open new routes and increased capacity to the existing long haul routes. The airline has recently purchased Embraer 170 aircrafts and will shortly be receiving 11737 type of aircrafts, both of

which are short haul equipment. These will be deployed to the underserved regional African markets and therefore contribute to revenue generation.

4.8 How competition has affected Kenya Airways marketing formulation

Most respondents said that marketing formulation at Kenya Airways has had to be changed as a result of the intense competition. Part of the response to the increasing competition was for the airline to change its image to a more international airline. It was also reported that the KQ would embark on an extensive project to upgrade and refresh its brand. This project would be complete in yr 2009 and will encompass all aspects of customers experience with the airline. Furthermore, joining the sky team alliance helped raise its profile as a reliable airline operating within the international standards of the global airlines. Recently, KQ started offering an incentive of allowing two (2) pieces of luggage per passenger on its international routes instead of just one. In order to be in line with other international airlines who are already offering similar incentives.

4.9 How growth in tourism contributed to Success of Kenya Airways

	Frequency	Percentage
Very Much	10	63%
little	6	37%
Not contributed	0	0%
Total	16	100%

Majority of respondent thought Kenya Airways had benefited from the growth of tourism in the country although some felt it only got a small piece of this business

4.10 Benefits of strategic partnership and Alliance*

Most of the respondents said that there were indeed benefits accruing from partnerships and alliances including the following:

- Access to over 400 member lounges worldwide
- faster customer checking in time with skyteam streamlined procedures
- Easier connection with an extensive worldwide hub network.
- Access to over 16,000 flights to 841 destinations worldwide
- Easier access to information than any skyteam member ticket office worldwide.
- Operating standards raised to international levels of the alliance members

These benefits will attract customers thereby increasing the airline's business and adding to its competitive advantage.

4.11 How airport facilities have supported Kenya Airways' success.

Most of the respondents pointed out that KQ depended on key ground infrastructural facilities and equipment to operate and deliver services as per its mandate. Availability of these facilities at the home airport has greatly supported the airline's operational performance and expansion, leading to its success.

JKIA is the largest and busiest airport in East and central Africa. It serves as a transit hub for major airlines as well as a gateway to Africa's treasured game parks, cultural heritage scenic landscapes and business opportunities. The main airport terminal has lounges, retail outlets and duty free shops. The airport has cargo handling agents and warehouses which include import/export warehouse, a dedicated export cold room, fresh produce area and a dedicated animal holding area. Aircraft parking and fueling services are provided at the airport accommodating all types of aircrafts. Landing facilities include Approach

lights. Runway edge lights and Glade path. There are currently 5 refueling companies and fuel storage tanks have a holding capacity of 50.000.000 litres of fuel, equivalent to one month consumption for all airlines at the airport.

4.12 Fleet operated by Kenya Airways

Respondents were asked to rate the equipment ticket currently operated by the airline and indicate how this has influenced its international business.

	Frequency	Percentage
Old	1	6%
Mixed	5	31%
New	10	63%
Total	16	100%

The respondents were split on the rating of the aircraft fleet with most agreeing that it was a new ticket. It was pointed out that the airline has recently undertaken serious modernisation of its ticket and now owns some of the most modern aircraft* in Africa. KQ has acquired four B777 in the last six years* and in the last one year received 3 Embraer 170 type of aircraft. It was pointed out that the airline has phased out the Fokker 50, Airbus and, most recently, Saab type of aircrafts which were old, small and inefficient.

The new ticket of D777 has helped the company to open long haul routes such as to Bangkok, Thailand and Istanbul, Turkey. The D777 type are said to be much more fuel efficient and have been deployed to the regional routes within Eastern Africa allowing the B737 type to be put on the greater Africa routes. It was further indicated

•hat KQ had placed an order for Boeing 787 (dreamliner) aircraft which is under development currently and expected to be in the market in 2010. The acquisition of B787 will greatly increase the capacity of the airline further in addition to enhancing its reputation as a modern and global airline.

CHAPTER 5: FINDINGS AND CONCLUSIONS

5.1 Introduction

Based on the data collected and analysed, conclusion, discussions and recommendations were made.

5.2 Findings

The general response was at 84% which was thought to be fairly representative and good for the study. The study found that there were distinct factors that have made the airline successful;

- Strategic choices of partnerships and alliances
- Application of IT
- Modernised fleet
- Effects of Globalisation
- Growth of tourism
- Availability of airport facilities at JKIA
- Well trained manpower

As a result of the partnership with KLM, KQ had increased its client base, enhanced its passenger services both at check-in and in-flight, benefited from loyalty from passengers who participate in member airline loyalty offerings and has greatly promoted the KQ brand in the world. The top management at KQ is a professional and experienced executive group which is guiding the company through the ever increasing competition and sometimes difficult operating conditions. The management values its human capital which is the reason it has invested heavily in continuous training programmes.

5.3 Conclusion

The researcher generally found out that KQ has largely succeeded in its business operations and performance by hinging on these success factors. By virtue of its operation and the international nature of the business, the success in Ky has enabled it participate and contribute towards international business.

5.4 Recommendations

The strategies the company has applied to enable it attain its current status of a respected international airline should be maintained and similar ones formulated to deal with new environmental conditions. It should continue seeking partnerships and alliances as well as continue to join industry groupings that can help enhance its operations and extend its market scope. Having attained respectable international standards, the airline should now focus on those factors that will enable it leap to the global stage as a world class airline.

5.5 Limitations to the study

This was a case study which concentrated only on the positive factors that have made the airline successful. The study does not give generalization of the success factors in the airline industry and cannot therefore be used as such.

5.6 Areas of further research

Factors that have made the airline less successful in negatively impacted on its participation in international business.

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Knock Moyvaywa
Faculty of Commerce
School of Business
University of Nairobi

1st Sept 2008

Dear Respondent

I am a postgraduate student at the University of Nairobi. School of business, studying a course leading to a masters degree in Business Administration(MBA). In order to fulfil the degree requirements. I am conducting a case study on factors that have made Kenya Airways contribute towards international business.

You have been selected to participate in the research by virtue of your position in the organisation, it is therefore to request you to kindly spare a few minutes of your time for the interview .

The information collected will be exclusively used for the academic purposes and the findings of the study can be made available to you upon request.

I thank you in advance for the anticipated contribution towards my study.

Knock Moyvaywa
MBA student.

QUESTIONNAIRE

FACTORS THAT HAVE MADE KENYA AIRWAYS CONTRIBUTE TOWARDS INTERNATIONAL BUSINESS

SECTION A : INFORMATION ON RESPONDENT

1. u) Name of respondent (optional)

h) Department

c) For how long have you worked at Kenya Airways ?

1-5 years () 5-10 years () Over 10 years ()

d) How long have you served in airline industry ?

Below 5 years () Between 5 and 10 years ()

Between 10 to 20 years () Over 20 years ()

SECTION B : FACTORS THAT HAVE CONTRIBUTED TO KQ'S SUCCESS

2. How has utilization of technology been used as a competitive tool?

3. In your opinion, what factors have made Kenya Airways successful in the last 10 years? Briefly explain each factor.

4. What external changes have taken place in the last 10 years that translate into opportunities or challenges for Kenya Airways? Briefly explain how each change has affected the company's business operations.

5. Globalisation is a worldwide phenomenon affecting international companies. In your view, what are the major benefits of globalisation to Kenya Airways?

6. How would you describe the level of competition faced by Kenya Airways locally and internationally?

Very High ()

Moderate ()

fairly low ()

7. How well has Kenya Airways managed its staff training programmes? In your view, to what extent have these programmes contributed to the success of the company?

- | | | | |
|-----------|-----|-------------|-----|
| Very well | () | A lot | () |
| Well | () | Substantial | () |
| Not well | () | Not at all | () |

SECTION C : INTERNATIONAL BUSINESS

8. How would you rate your company's participation in international business in relation to its international and regional operations?

- | | |
|-------------|-----|
| Very Strong | () |
| Strong | () |
| Not strong | () |

9. For the factors identified in (3) above, please explain in detail how Kenya Airways has taken advantage of each and benefited.

10. How has competition affected Kenya Airways' marketing strategy formulation?

11. To what extent has the growth in tourism in Kenya contributed to the successful performance of Kenya Airways? Very much () Idle () Not contributed ()

12. How has the availability of aviation fuel and other facilities at Jomo Kenyatta International Airport enabled Kenya Airways succeed in its business operations?

- | | | |
|---------------------|--------------|----------------|
| to a big extent () | Not much () | Irrelevant () |
|---------------------|--------------|----------------|

13. Kenya Airways has entered into strategic partnership with other airlines. What are the benefits to Kenya Airways from this strategic move?

14. What will Kenya Airways achieve with its recent membership of the Sky Team alliance?

15. How would you rate the aircraft fleet operated by Kenya Airways?

Old ()

Mixed ()

New ()

16. How do you think the fleet composition in (15) above influence Kenya Airways' business performance?

I would like to thank you very much for your response