

**EXTERNAL ENVIRONMENTAL FACTORS INFLUENCING  
FINANCIAL PERFORMANCE OF KENYA AIRWAYS**

**BY**

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## DECLARATION

This research project is my original work and has not been submitted for examination in any university.

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

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## **DEDICATION**

I dedicate this work to my parents Boniface Ochieng and Roseline Ochieng for their unconditional love and support during this study and always.

## ABSTRACT

Financial performance of an organization defines the organizations continuity. A firms' sustainability is highly dependent on its management of finances. Corporate success in todays' market environment is defined by some factors which are out of the direct control of an organization, yet organizations have to adapt to the external environments dynamic ways for their survival. The effect of external environmental factors on the financial performance of the airline industry especially in Kenya has received little attention in academic inquiry. The airline business depends on the wellbeing of international trade and the stability of the markets. It is interesting to study how Kenya Airways financial performance is affected by the external environmental factors in the airline industry. A number of studies have been done on financial performance in the airline industry but the researcher is unaware of any past research tackling individual external factors and their effects on financial performance. It is in this light that the study sought to fill the existing gap in this area. The objective of the study was to determine the external environmental factors influencing financial performance of Kenya Airways. In doing this, the study sought to answer the following research question: what is the effect of external environment on the financial performance of Kenya Airways. The study applied case study research design where only one organization was involved. The study used primary and secondary data collected through interview guide administered to senior managers at the organization and KQ financial statements. Content analysis was used to analyze data and the findings presented in a prose format. The financial performance trend indicate that the financial performance of KQ has deteriorated over the years despite increase in sales at an average of 13%. The respondents comprised of Top management at KQ. A total of seven out of the ten targeted respondents provided feedback. External environmental Political and legal factors were found to affect KQ financial performance to a very great extent. External Economic environment significantly affected the financial performance of Kenya Airways due to Kenyas' expansionary fiscal and monetary policy as well as Measures taken by the CBK to control inflation and exchange rates. Inflation negatively affected its fuel costs hedging strategies. The high interest rates have tripled the costs of their debt leading to massive losses in the financial year 2013 and 2014. Rapid technological advancements in the industry informed KQ decision to buy new planes in an effort to adopt international technological advancements and this led the carrier to sink in debt due to high interest rates accounting for the interest rates expenses reported in KQ financial statements hence the financial losses. The study finally recommends that KQ should improve its cost control through fuel efficiency as this accounts for almost half the operating cost and adapt the latest technology in streamlining their operations. KQ should also continue to form targeted strategic partnerships that work to meet their long term vision.

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## **ABBREVIATIONS AND ACRONYMS**

AFRAA:	Africa Airline Association
B2B:	Business to Business
CBK:	Central Bank of Kenya
EABL:	East Africa Breweries Limited
FY:	Financial year
IATA:	International Air Transport Association
ICOA:	International Civil Aviation Organization
ICT:	Information Communication Technology
IT:	Information Technology
KLM:	Koninklijke Luchtvaart Maatschappij
KQ:	Kenya Airways Limited
LCC:	Low-cost carrier
ROA:	Return on Assets
ROE:	Return on Equity
SME:	Small, medium and micro enterprises

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Finance is the source of life of a business and is rightly termed as the science of money (Stephen Zarlenga, 2002) it is very essential for the smooth running of business and controls the policies, activities and decision of every business. Financial performance is the level of accomplishment of a business over a specified period of time, expressed in terms of overall profits and losses during that time. Evaluating the financial performance of a business allows decision-makers to judge the results of business strategies and activities in objective monetary terms. Organizations overall objective cannot be achieved without looking at its financial performance, thus Strategic managers are consistently faced with the decision of how to allocate Scarce corporate resources in an environment that is placing more and more pressures on them ( Sandra & Samuel,1997).

The business environment today is dynamic and competitive due to globalization which has bitten the barriers that existed before for cross border trade, opening the gates to International competition. Globalization has been driven by a number of powerful forces, including crumbling trade barriers, fast paced technological advances, declining telecommunication and transport costs, international migration, and a highly mobile investment community (Pearce & Robinson, 2007). As a consequence of these changes, firms are finding themselves having to compete against new, often multinational entrants seeking growth and expansion to new markets. For survival in today's competitive environment, firms must look at their financial

performance and find methods of making profit while staying competitive in the business environment.

This study will be anchored on the open systems theory and the contingency theories which simply indicate that an organization performance is strongly influenced by their environment (Galbraith & Lawler, 1993). The Airline industry in Kenya is considered to be an open system because its competitiveness is significantly affected by the international environmental factors that eventually affect its performance. The basic assertion of contingency theory is that the environment in which an organization operates determines the best way for it to organize. Financial management theorists have argued that the financial performance of global enterprise is highly contingent on the global environment factors that are political, cultural, economic or technological in nature.

### **1.1.1 Concept of external environmental factors**

The external environment consists of external influences that affect the firm's decision making process and performance. The external environment is made up of key factors which are outside the direct control of the business. These factors such as the economy, social change and government policy affect the survival of the firm significantly (Gillespie, 2007). Understanding the macro-environment raises helps management understand, analyze and monitor environmental conditions. Various frameworks have been formulated for analyzing the operating environment with an aim of enhancing organizations preparedness and adaption to environmental changes. The operating environment of international business is characterized by different factors that might affect the organization cost, supply and demand. PESTEL-Political,

Economic, Social, Technological, Environmental and Legal- are some of the frameworks used for analyzing the macro-environmental factors affecting organizations in a particular sector.

(Narayanan and Fahey, 2001) asserted that environmental issues influencing a firm's performance can be classified by source or by proximity. The source can further be classified into such factors as political, economic, social and technological (PESTEL analysis) whereas the proximity factor is the micro-environment or task environment which are factors internal to firm and are distinguishable from the wider influences that forms the macro-environment. As local firms find themselves in a changing environment subject to the influences of Global competition, they are forced to reassess their competition mode and view the industry around them through fresh eyes (Johnson & Scholes, 2002).A competitive organization must scan the business market, know and operate within the accepted norm or way of life of the community it is selling its products and services to.

### **1.1.2 Financial Performance**

Organizational financial performance comprises the actual output of an organization as measured against its intended outputs or goals in monetary terms.(Richard,& Johnson, (2009) define organizational financial performance measurement as the process of collecting, analyzing and or reporting information regarding the financial performance of an individual, group or organization. The financial performance measurement can involve studying processes within organizations or process parameters to see whether output are in line with what was intended or should have been achieved. Some past studies have used return on sales, return on assets and

return on investment as measures of firms' performance (Acquaah & Yasai-Ardekani, 2008; Asiedu, 2002).

Prior studies have found empirical evidence that the survival of firms correlates positively with financial measures of performance (Gaur & Lu, 2007). In accounting literature return on equity (ROE) is considered to be the most important ratio in the suite of financial performance ratios as this measure drives the share price (Graham, 2007). It relates the increase in the value of the business during the year to the total value of the business at the end of the year (Graham, 2007).

There are several financial performance measurement systems in use today including the balanced Scorecard (Kaplan and Norton,2001), strategic planning and management system that is used extensively to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. (Kaplan 2001); Performance Prism (Neely 2002), an innovative second generation performance measurement and management framework that addresses all of an organizations stakeholders. Principally the interest of investors, customers and intermediaries, employees, suppliers, regulators and communities are taken care of. It does this by considering what the wants and needs are of the stakeholders and uniquely what the organizations wants and needs are from its stakeholders. In this ways the reciprocal relationship with each stakeholder is examined. Another performance measure is Cambridge Performance Measurement Process (Neely 2002), a system that works with agencies to design custom performance measures that i) Reflect agencies policies

and priorities ii) are feasible to calculate with existing data iii) support specific decision process.

These performance measurement systems identify the basic measurements of organizational performance as efficiency in productivity, improved quality, improved financial performance and shareholder return. Other measures of organizational performance include efficiency in asset utilization, cost reduction, enhanced business and customer satisfaction. Performance Prism by (Neely, A. 2002); will be adopted in this study.

### **1.1.3 Airline Industry**

Airline industry remains a large and growing industry .It facilitates economic growth, world trade, international investment and tourism and is therefore central to globalization, taking place in many other industries. In order to appeal to prospective shareholders, the airlines have to become more efficient and competitive. Airlines profitability is closely tied to economic growth and trade. Airlines have had to recognize the need for radical change to ensure their survival and prosperity in globally competitive environment. For airlines, the future will hold many challenges. Successful airlines will be those that continue to tackle their costs and improve their products, thereby securing a strong presence in the key world aviation markets (Stanford University, 2008).

The Airline industry in Kenya is recording strong growth due to expanding regional and global trade (Kenyanaviation.com). Several airline companies including those operating international routes and local routes are in the Kenyan market today setting

in tight competition for passengers. Kenya Airways commands a good presence within the African region although there has been increased competition on key routes coupled with pricing pressure lately. Competitors have launched flights on major routes, for example Qatar Airways has been effective in various Middle East and Europe destinations while Emirates Airlines has also been competitive in Africa and the rest of the world. Air Arabia also raised the bar on Competition especially on the pricing front. Rwandair, Fly540, Air Uganda, JetLink and Precision Air, among others, have enhanced their presence in the region on the back of new routes' expansion and increased frequency on existing destinations. As the Kenyan operating environment evolves, significant challenges are presented for survival in the airline industry. The key issues facing today airlines and in particular Kenya Airways are challenges associated with optimal asset use, idle capacity, unsustainable fixed costs ,highly variable revenues, and inadequate ability to react quickly to changes.

#### **1.1.4 Kenya Airways**

Kenya Airways Ltd. more commonly known as Kenya Airways (KQ) is the flag carrier and largest airline of Kenya. The company was founded in 1977, after the dissolution of East African Airways. The carrier's head office is located in Embakasi, Nairobi, with its hub at Jomo Kenyatta International Airport (Corporate history 2010). Kenya airways operates with the code *KQ* under International Air Transport Association (IATA) and as *Kenya* under International Civil Aviation Organization (ICAO) airline code (IATA ,2013). The airline was wholly owned by the Government of Kenya until April 1995, and it was privatized in 1996, becoming the first African flag carrier in successfully doing so. (About Kenya Airways 2011)



Kenya Airways is currently a public-private partnership. The largest shareholder is the Government of Kenya (29.8. %), followed by KLM, which has a 26.73% stake in the company (Corporate History 2010) The rest of the shares are held by private owners; shares are traded in the Nairobi Stock Exchange, the Dar-es-Salaam Stock Exchange, and the Uganda Securities Exchange. Kenya Airways is widely considered as one of the leading Sub-Saharan operators. The carrier became a full member of Sky Team in June 2010, and is also a member of the African Airlines Association since 1977. As of June 2012, the airline has 4,834 employees. KQ has been facing financial troubles which have become more prominent in the recent past resulting in billions of losses and massive staff retrenchment. It is hypothesized that the reason behind KQs' troubles is its inability to manage external environmental influence, thus leading to this study that seeks to identify how individual external environmental factors affect its financial performance.

## **1.2 Research Problem**

A number of scholars have examined and provided useful insights on research directions in financial performance in the airline industry. These include studies, such as those by (Prajogo& Sohal, 2010) on the effect of international business practices on the financial performance of multinational corporations .using a survey of 50 American companies; airlines being one of them; The findings indicate that international business environment is a key determinant of financial performance and eventual organizational success. However one limitation of study was failure to analyze the effect of individual environmental factors on performance.

Tuan (2011) studied the effects of changes in competition, technology and strategy on organizational performance in small and medium manufacturing companies in Asia. Results of the study show that the majority of respondents recognized changes in their competitive business environment and manufacturing technology, which have impacted on organizational strategic behavior and competitiveness in terms of the organizations financial performance. The findings showed the importance of technological advancement adaption in enhancing organizational financial performance in the manufacturing sector. The limitation of the study is that it focuses mainly on the manufacturing industry.

Other local studies that have been done relating to the topic include: Muturi (2000) on strategic responses by firms facing changed competitive conditions; case study of E.A.B.L Ltd, the findings indicate adaptation to environmental changes was the most ideal response to changes in competitive conditions. (Kosiom, 2013) studied global strategy implementation challenges in Kenya using a survey study of 30 multinational corporations in Kenya; the study concluded that Kenya's fiscal policy environment was the biggest hindrance to global strategy implementation. (Gichira, 2007) studied the challenges of globalization and their impact on Multinationals in Kenya, his findings concluded that Kenyan firms face reduced competitiveness due to resistance to change. These studies however failed to assess the impact of individual external environmental factors on quantitative organizational financial performance hence the need for this study.

Competitive threats from multinational players across the globe are increasingly making domestic players such as KQ more conscious of their vulnerable state and incentivizing them to proactively engage in an effort to ensure their sustainability in these turbulent times. The need to improve safety, reliability, and customer appeal while offering competitive prices is an ever-present challenge for them. Despite this growing importance, there is insignificant research work done to determine how individual external environmental factors affect organization performance, creating a knowledge gap that this study seeks to fill leading and to the following research question: How do external environmental factors affect the financial performance of Kenya Airways?

### **1.3 Research Objective**

The objective of the study was to determine the external environmental factors influencing financial performance of Kenya Airways.

### **1.4 Value of the Study**

The study will benefit the management of Kenya Airways in understanding how external environmental factors affect financial performance and hence be able to make proactive changes aimed at hedging the risks associated with external environmental exposures and be able to protect its profits.

The findings and recommendations of this study will enhance effectiveness of policy decisions. The Government of Kenya and the airline industry policy makers will be able to make informed policy adjustments either in terms of fiscal policy changes,

renewed bilateral trade negotiations, structural adjustments or even reviewing its trade liberalization policies.

The researcher observes that there is insignificant research work done on external environmental factors influence on financial performance. The findings of this study will therefore be useful to future researcher and scholars as the information will form a basis for their literature review and also help them develop other studies.

Players in the airline industry will find the information useful in understanding how external environment affects financial performance and the strategies to be adopted to enhance organizational performance.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

In this chapter, the researcher presents the knowledge of study available on external environmental forces in business and how such exposures affect organizational financial performance. It provides a summary of theoretical foundation, the air travel challenges, determinants of financial performance and external environmental factors affecting business performance.

#### **2.2 Theoretical Foundation**

This section focuses extensively on highlighting the theoretical foundation on external environmental factors that affect businesses. The section will provide a review of literature on the financial performance in the airline industry and what scholars have studied on external environmental factors effect on financial performance.

##### **2.2.1 Open Systems Theory**

Open systems theory refers simply to the concept that organization performance is strongly influenced by their environment (Galbraith & Lawler, 1993). The environment consists of other organizations that exert various forces of an economic, political, or social nature. The environment also provides key resources that sustain the organization and lead to change and survival. According to Scott (2002), organizations and communities conduct their business in a way they influence and change their external environments, while at the same time being influenced by

external changes in local and global environments. This two-way influential change is known as active adaptive change.

Organizations and communities are open systems; changing and influencing each other over time. Through their actions they influence and change their external environment, and at the same time are constantly being influenced by changes in the external environment. The Airline industry in Kenya is considered to be an open system because its competitiveness is significantly affected by the international environmental factors that eventually affect its performance

### **2.2.2 Contingency Theory**

Contingency theory is considered a dominant, theoretical, rational model at the structural level of analysis in organization theory (Scott, 1992). The basic assertion of contingency theory is that the environment in which an organization operates determines the best way for it to organize. The position of the organizational theorist is that the best way to organize depends on the nature of the environment to which the organization relates (Scott, 1992). Financial management theorists have argued that the financial performance of global enterprise is highly contingent on the global environment factors that are either political, cultural, economic or technological in nature.

Researchers often defined additional contingency variables or divided the primary factors (Mintzberg, 1979). Strategic contingency theorists emphasize on the roles of power, politics and individual goals and objectives. Power is both an outcome and determinant providing participants further advantages in the political struggle because

of their structural position (Pfeiffer, 1981). Recent work is addressing multiple contingencies, seeking higher degree of explanation of relationships and attempting integration with other theories (Pennings, 1992). A contingency approach can and has been used to study many areas within organization management, as well as other sciences.

### **2.3 Air Travel Challenges**

The global airline industry has grown significantly consisting of over 2,000 carriers worldwide, operating over 23,000 aircraft, and servicing over 3,700 airports. On the average annually, world airlines flew approximately twenty eight million (28 million) scheduled flights carrying over 2 billion passengers (IATA, 2006). With this immense growth, numerous complex challenges presently beset the airline industry. Competitive pressure from low-cost carriers, the transparency of pricing facilitated by the internet and consumer's loss of confidence in the reliability of air transportation system have all impacted negatively on airlines revenues (Anon, 2008). Since 2006, the cost of fueling the aircraft has on a regular basis emerged the largest industry expense and has surpassed the cost of labor for the first time (Anon, 2008).

The progress recorded in enhancing security has improved safety on the airline industry as passengers and their luggage are now screened for security reasons. However, this process has created a lull in air travel business as passengers are wary of the additional delay caused by the extra security measures. The extra security measures have resulted in increased operating cost and induced more security-related flight delay and disruptions (Anon, 2009).

Due to the volatile nature of air travel , airlines are suffering from increased cost of insurance and their access to cheap funds are becoming increasingly difficult due to the economic downturn, also compounded by the decrease in air traffic volumes (Ho, 2009).Airlines are struggling to survive these negative trends, with several carriers experiencing financial difficulties and some becoming bankrupt. These increased pressures have resulted in mergers, alliances, acquisitions and industrial consolidation by airlines in order to reduce operating cost and thus enhance profitability (Anon, 2009).

The external environment of airline industry is very crucial to the survival of the various airlines as it exerts enormous impact on the airline industry. The external environment of the airline industry can be described as very unstable as there are regular fluctuations in the macro-environments. Recent event happening in the macro-environment has affected the airline industry significantly. Government regulations in most cases have been unstable and restrictive. The industry is often plagued by the outbreak of diseases, war, terrorism and recession. These risks often affect the operability and the survival of most firms in the industry (Dempsey, 2008).

Because of its importance to the economic growth of many countries, and in order for Nations to be able to participate in globalization, governments, throughout history, have promoted the development of the airline industry by providing infrastructure, research and development, subsidies, protective regulation and outright ownership of airlines. For instance, prior to 1978, the US government strictly regulated commercial airlines by controlling airline's route entry and exit, passenger fares, airline rate of



returns, mergers and acquisition (Dempsey, 2008). It was very difficult if not impossible for entry of new airlines as the regulation hindered competition.

## **2.4 Determinants of Financial Performance**

Financial performance can be determined by, capital structure, liquidity, firm size, interest rate, exchange rate and the cost of production.

### **2.4.1 Capital structure**

Total debt to total assets at book value, influences both the profitability and riskiness of the firm (Bos and Fetherston 1993). There are several commonly used debt ratios in studies on capital structure. In Muhammad (2003), the main issue of investigation is laid out on the premise of the static trade off theory, which, in simple terms states that some amount of debt is desirable, but too much of it brings in financial distress. He is concerned with the total amount of debt used by a firm to finance its entire operation and firm's ability to service the loans. Therefore he is concerned with total debt and total liability of the firms. He also studied the behaviour of long-term debt because it traditionally forms an important component of capital. In his study he used three leverage measures which are; Total liability (non-equity) to total asset ratio (TLA); Total debt to equity (TDE) and; Long-term debt to capital. Capital structure affects firms' financial performance.

### **2.4.2 Liquidity management**

This is important for financial performance. Organizational profitability is determined by the efficient management of the broader measure of liquidity, working capital, and its narrower measure. Companies usually do not think about improving liquidity

management before reaching crisis conditions or being on the verge of bankruptcy yet cash management is very important.

#### **2.4.3 Size of the firm**

The size of a firm determines the kind of relationship the firm has inside and outside its operating environment. The larger a firm is, the greater the influence it has on its stakeholders. Multinational firms for instance have an impact on the environments they operate in. According to Punnose (2008) there is a relationship between firm size and profitability.

#### **2.4.4 Exchange Rate**

Multinationals make major profits on regions with stronger currencies. The Kenyan shilling is today weakening against the dollar and this means a loss in the Kenyan region. Generally exchanges tend to benefit the firms that export and reduce profitability on the firms that use imported products.

#### **2.4.5 Cost of Production**

The cost of raw material and labor that is incurred by a company at production is almost always transferred to the cost of the final product. Thus if the cost of production is high, the final product cost remains high. This reduced demand while also decreasing profit. The lower the production cost, the higher the profit, or the amount left over after subtracting expenses from sales revenue. The cost of production should be watched but must remain sustainable, otherwise the company risks being faced out in the long run.

## **2.5 External Environmental factors affecting business performance**

The central issue for any business is how to minimize risk. When operating, a company has to consider the external environment that is likely to affect its performance. This concern, for example, includes the cultural barriers to investment, the ability to reach a competitive edge with new investments and the strategic use of new technologies and natural resources. The following is a brief review of components of external business environment.

### **2.5.1 Cultural challenges and cost of doing business**

Culture is an elusive term that has received hundreds of definitions. (Hofstede, 1984) influential definition is that culture is the collective programming of the mind which distinguishes the members of one human group from another. (Hofstede, 1984) identified the main dimensions of culture that affect work practices as: Power distance, uncertainty avoidance, individualism vs. collectivism, masculinity vs. femininity, long vs. short-term orientation. In a national culture framework, large power distance can translate into potential corruptive practices. (Takyi-Asiedu, 1993) associated power distance to corruption in sub-Saharan Africa. Cultural preferences, disparities customer sensitivity and effectiveness of advertising are thought to be important external social-cultural environmental factors that affect business performance.

### **2.5.2 The impact of political risk**

The political environment in a country influences the legislation and government rules and regulations under which a firm operates. Every country in the world follows its own system of law and a company operating within it has to abide by these laws for

as long as it continues to operate there. Political risk was defined by (Wells, 1998) as the challenges faced by investors that result from some sort of government action, and sometimes inaction. Political risk implies negative business consequences due to the behavior of governments and public sector organizations (Suder, 2004).

This threat sometimes takes milder forms as when, in times of crisis, some governments resort to exchange rate controls which eventually affect business revenues. Another source of political risk is wars or civil strife. However, (Jones, 2001) observes that dramatic events such as wars, assassinations and sequestrations are rare in the international business arena. Another important political risk is represented by corruption practices (Hill, 2005). For instance, a company may lose market access to unfair competition due to governments unethical dealings (Madura, 2006).

Political risk can also translate in the change in tariff barriers, which make it impossible for a company to access its international business destinations. Firms involved in global business must be familiar with and obey the laws of their home country, the local laws of each country in which they do business, and international laws. For example, countries may well have different laws covering employees such as minimum wages, overtime, insurances, maximum work weeks, and so on. Under such laws, companies are required to use locally available raw materials, local labor resources, or purchase parts from local suppliers, this can compromise quality (Hofstede, 1984).

### **2.5.3 Accounting disparities**

Business accounting has historically developed on a national basis (Walton, 2003). As Walton points out, the national differences are a reflection of the culture of the country where businesses operated. In addition to culture, another variable of national accounting principles is represented by influences from ones neighbors, major trading partners or culturally tied countries (Walton 2003). Cross-border ties have been a driver of accounting harmonization, as countries become regionally integrated .As the world is becoming more and more globalized, there have been increasing efforts toward harmonization of accounting. Currently, the idea of convergence rather than standardization of accounting has become the most popular (Walton 2003).

Different taxation and accounting policies post a big challenge to implementation of global strategies because different policies demand different strategic responses. Doing business internationally presents far greater challenges to local activity. The complexity of playing at the global level presents companies with different conundrums and choices, many of which are not straightforward. Disparities in international taxation practices and lack of double taxation agreements between countries can significantly affect the financial performance of an international business organization

### **2.5.4 The effect of Economic Environment on business**

Economic factors exert huge impacts on firms working in an international business environment. The economic environment relates to all the factors that contribute to a country's attractiveness for foreign businesses, such as monetary systems, inflation, and interest rates. Economic factors exert huge impacts on firms working in an

international business environment. The economic environment relates to all the factors that contribute to a country's attractiveness for foreign businesses. Businesses rely on a predictable and stable mechanism. A monetary system that acknowledges countries and economies interdependence and that fosters growth, stability and fairness at a global level is important for prosperity, and the operation and growth of companies. Inflation, interest rates, and the borrowing costs of companies also contribute to a country's attractiveness. If a country has a high rate of inflation, its central bank will raise the interest rate, which increases the cost of borrowing for firms. High inflation also makes the value of the revenue in domestic currency fall, and this exposes firms to foreign exchange risks. It is even worse if firms produce in countries of high inflation and then sell products to countries of low inflation, since the input costs are on the rise while the revenue stays stable.

### **2.5.5 The Effect of Technological Environment on Business**

A business ability to adapt to changes in international technological environment may reap the benefits of reduced cost of production, enhanced efficiency and opportunity to avoid obsolescence through dumping (Richardson, 2014). The type of technology in use, the level of technological developments, the speed with which new technologies are adopted and diffused, the type of technologies that are appropriate and the technology policy are important to business. Advances in technology may also cause relocation of production. The technological environment comprises factors related to the materials and machines used in manufacturing goods and services. The organization's receptivity and willingness to adapt to new technology, as well as the willingness of its consumers to do likewise, influences decisions made in an organization.

Airlines are moving away from paper system. With introduction of electronic ticketing, bar code scanners, image sensors and fast online booking and check in systems, passengers do not have to stay long in line to be served. This has also increased accuracy and security. Passengers prefer airlines with the latest technology. For instance, the technology that scans your boarding pass, directly from the phone. This means that airlines must be as dynamic to survive and compete fairly in the market.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter outlines the various stages and phases that were followed in completing the study. It outlines procedures and techniques used in the collection and processing of data such as the research design, data collection instruments, data collection procedures and finally data analysis.

#### **3.2 Research Design**

The research was a case study that used both secondary data and primary data. The researcher analyzed the financial performance of Kenya Airways for the past ten years by use of ratio analysis. The second phase of the research was interviewing through the use of interview guide, all the top level management of Kenya airways to get their opinion on how external business environment contributed to the identified financial performance. The collected data was analyzed with a view to determine relationship between external environmental factor practices and performance of Kenya Airways.

#### **3.3 Data Collection**

The secondary data on financial performance of Kenya Airways is available online. Primary data was obtained through in-depth interview using interview guide. The Interview guide was divided into three sections. Section (A) captured general information on respondents. Section (B) captured information on strategic decision making. Section (C) captured information on external influence on financial



performance and section (D) captured the recommendations to boost financial performance.

### **3.4 Data Analysis**

The data obtained from the interview guide was analyzed using content analysis. Analysis of the ten year financial statement was done by use of ratio analysis. Content analysis makes general statement on how categories or themes of data are related. The analyzed data was presented in Table form and conclusion for these findings relayed and discussed in chapter four and five respectively.

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.1 Introduction

This chapter looks into the analysis of the data collected, the findings and discusses the outcome of the research with an aim of answering the research question. The first part covers the personal information of the respondents while the second encompasses the external factors influencing the financial performance of Kenya Airways.

#### 4.2 Summary of KQ financial Performance trend from 2005 to 2015

**Table 4.1: Summary of KQ financial Performance trend from 2005 to 2015**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	AVG
Turnover	36%	25%	11%	3%	19%	-2%	21%	26%	-8%	7%	4%	13%
Profits (EBT)	166%	26%	-14%	9%	187%	147%	87%	-57%	-604%	55%	-711%	-64%
Number of employees	8%	12%	15%	3%	-2%	-1%	5%	11%	-17%	0%	-100%	-6%
Number of passengers	18%	20%	8%	4%	4%	4%	7%	16%	3%	0%	14%	9%
Passenger load factor	7%	-2%	-1%	-4%	1%	-6%	4%	4%	-4%	-5%	-3%	-1%
Number of aircraft	5%	5%	10%	4%	17%	-4%	15%	10%	26%	9%	17%	10%

*Source: KQ 2015 financial statements*

The financial performance above indicates that KQ turnover increased at an average of 13% annually for the past ten years. Profitability declined at an average annual rate of 64% for the past ten years with 2013 registering a decline of 604% and 2015 registering a decline of 711%. The number of employees declined at an average of 6% annually for the past ten years while numbers of passengers increased at an average annual rate of 9%. However Passenger load factor decreased at an average of 1% annually while the number and value of aircraft have been increasing at an average of 10% annually. The analysis above was used as a guide during the top management interviews to identify how the external environment has contributed to KQ financial performance over the period of study.

#### **4.2.1 Background Information of the Respondents**

This section focused on the response rate, designation of the respondents and work experience of the respondents. Ten top executive directors of Kenya Airways were targeted for the interview. Total seven out of the ten targeted respondents provided feedback giving a response rate of 70 %. There were three respondents who were not reached due to their tight schedules and frequent meetings, efforts to reach their business planning managers or their assistant managers were also not successful. The respondents were able to provide reliable information on the effect of external environment on KQ financial performance due to their positions within the Airline and their regular participation in strategic meetings within the Airline industry.

All the respondents had enough experience in their fields of work. The questions administered to the respondents covered strategy, partnerships, financial performance and external environmental issues. All the respondents had a good understanding of

the external environmental analysis and how it affects the financial performance of Kenya Airways.

### **4.3 Strategic Decision Making**

Organizational strategy influences the success rate of an organization. Companies with strategies that are adoptive to the dynamic external environment often survive difficult times and make greater profits than those that do not. According to the respondents, the financial strategy of Kenya airways is anchored in its general strategies which are; computerization, investment in advance technology and safety, route expansion, new international partnerships, fleet modernization and expansion, and belonging to the exclusive airline clubs 'sky team'. For management of finance, it was found that emphasis is placed on profitable expansion of the network through a combination of direct access and alliances with other carriers, greater productivity, cost restrains and reduction in wastage.

The study also sought to find out how often Kenya Airways reviews its strategic plan. The interviewees indicated that the Airline reviewed its strategic plan after every 10 years that would see the Airline implement and accomplish its growth strategies. However, the strategic plan is developed with short term deliverables which consolidates to make up the 10 years strategic plan. The interviewees also indicated that the strategic plan was subject to internal reviews from time to time depending on the changes in the immediate operating environment so as to maintain the competitiveness of the Airline.

The study established that the ambitious mawingu strategy has enabled the airline expand to new routes like Beirut in Lebanon and New Delhi in India. Kenya Airways also successfully launched a low cost carrier Jambo Jet, to handle regional flight operations, for a competitive edge in the market.

On fleet modernization and growth, Kenya Airways successfully completed the first phase of its fleet renewal program during the financial year 2015. It managed to acquire Boeing 5 x B787 Dreamliner, 2 x B777-300 ER and 3 X B737-800 NG Dreamliner. As a result of additional frequencies, the study established that within Africa, the capacity offered increased despite the suspension of operations into Sierra Leone Liberia since August 2014 and to South Sudan earlier in the year.

Kenya Airways also adopted a strategy of segment focus. It improved its engagement with corporate travel agents (TMC), Government, leisure and the SME trade segment. As part of employee development strategy, the study established that the airline has invested in coaching and mentoring programs, technical training and operational training for those identified in succession plans and needed to be trained as part of their development plan.

The study found out that Kenya Airways has strategic alliances with other airlines. It has reciprocal alliance agreements with KLM, Air France and Etihad giving access to each other's networks and paving way for greater collaboration and cost saving. These partnerships significantly expand the airlines reach across strategically important markets and help it build its passenger network.

Some of the recently adopted strategies include (1) Developing a fully functional mobile solution that targets mobile users looking to do business with Kenya Airways. This system gives solution for mobile booking, payment, check-in, flight status and flight time table (2) Msafiri connection, a B2B web based solution that converts the inventory in a web application format and distributes it through the World Wide Web. This is a product for SME and IATA travel agents segments (3) An upgrade of the website to improve functionality and simplify process steps.

#### **4.4 Effect of Political and legal environment on financial performance**

Political and legal factors include government intervention on economic operations on a particular industry. Airlines operate in a political environment that is very regulated and restricted. Government intervention can be necessary to protect passengers interests and airline operations' safety measures .In line with the objective of this study, it was found necessary to investigate the political factors influencing the financial performance of Kenya Airways. All the respondents strongly agreed that the airline is widely impacted by regulations and restrictions related to international trade, tax policy, and competition. It's also impacted by issues like war, terrorism, and the outbreak of diseases such as Ebola. These issues are political. As a result, they require government intervention.

From the interviews, it was found that political factors influenced the financial performance of Kenya Airways. The 2014 Ebola that spread across West Africa affected financial performance from the affected regions which included Guinea, Liberia, and Sierra Leone. Other affected areas include the U.S., Nigeria, Spain, and Senegal. During fatal disease outbreaks, rules and restrictions are imposed especially

on air transportation. This includes canceling flights to the affected areas and thorough examinations of passengers entering flights. The respondents stated that KQ lost its entire market in West Africa which accounted for 20% of its revenues.

The respondents also stated that double taxation of its revenues both in Kenya and in countries where it operates impacted negatively to a very great extent on its earnings, weakening its competitive edge on the continent and in the world. They strongly stated that they needed assistance in the issue of double taxation because KQ was paying tax twice, in Kenya and away due to the Governments failure to expedite the signing of bilateral agreements with other countries where it flies so as to eliminate double taxation that continues to hurt its business.

Interview with the management disclosed that Kenya Airways diplomatic rows had in the recent past affected temporarily their access to certain countries such as Tanzania. This negatively affected their revenues .The respondents indicated that the countrys' inability to negotiate for direct flight routes between destinations such as the United States due to the threat of terrorism in Kenya was a factor that negatively affected its costs and passenger volumes. The respondents further indicated that politically motivated trade barriers were challenges that negatively affected the financial performance of Kenya Airways.

#### **4.5 The effect of Economic environment on financial performance of Kenya**

##### **Airways**

The respondents strongly stated that like most industries, the airline industry is impacted by the economic cycles' peaks and troughs. Airline performance is related to economic growth. Economic indicator trends can be matched with airline passenger and freight volumes. During periods of increased competition and diminished business returns as well as prominence of small and medium enterprises, businesses choose cheaper means of transport. The transport is substituted to reduce costs and to maintain profit margins. This leads to reduced volumes. Economic environment includes factors and trends related to income levels and the production of goods and services. Economic conditions affect how easy or how difficult it is to be successful and profitable at any time because they affect both capital availability, cost, and demand.

Through the Kenyan Airways correspondents in this research, they admitted that economic policies instituted by both nations in bilateral agreements influenced financial performance of Kenya Airways by a large extent. Kenyan Airlines have less demand compared to foreign Airlines due to their large diverse trade routes and cheaper transportation costs. This is supported by previous findings made by other researchers who observed that Foreign Airline charges are much cheaper thereby creating competition for local Airlines. The Foreign Airline investment has increased in the past decade in Africa including Kenya. According to statistics from World Airline (2012), Kenya is ranked number 3 out of 38 African countries on trade partnership with foreign Airlines.



Kenya Institute of Public Analysis and Research found out that Foreign Airline investment in Kenya have doubled and it is projected to increase in the years to come. Kenyas' expansionary fiscal and monetary policy as well as Measures taken by the CBK to control inflation and exchange rates have influenced exchange rate and interest rates and thereby affecting the trade to some extent. Inflation negatively affected its fuel costs hedging strategies that had fixed in dollars hence increasing fuel costs to a very great extent despite the general decline in fuel costs globally. The respondents indicated that the high interest rates have tripled the costs of their debt leading to massive losses in the financial year 2013 and 2014.

#### **4.6 The effect of Socio-Cultural environment on the financial performance of Kenya Airways**

The study further sought to find out the socio-cultural factors that influence financial performance of Kenya Airways as in line with the objective of the study. Over-time most products change from being a novelty to a situation of market saturation, and as this happens pricing and promotion strategies have to change. Similarly, some products and services will sell around the world with little variation, but these are relatively unusual. The study findings indicated that respondents were of the opinion that age distribution influenced the financial performance of Kenya Airways. The respondents indicated that younger passengers preferred Foreign Airlines products to the elderly people. This means that Foreign Airlines do well in areas with higher population of young people.

Another socio-cultural factor found to influence financial performance of Kenya Airways was the income distribution. From the interviews, it was found that higher

income increased the amount spent in households. The respondents also indicated that the other factor was attitude to work and leisure. The study found that the respondents thought the global economic crises in Europe and America have negatively impacted on travel and consequently KQ business performance; it also increased consumer sensitivity to price change resulting in price wars between KQ and its competitors. Kenyans have varying attitude to work and leisure. Population growth rate was found to influence financial performance of Kenya Airways to a great extent. Kenyan population growth rate is increasingly growing, Making investment in Kenya attractive for foreign Airlines.

#### **4.7 External Technological Factors Influence on Financial performance of Kenya Airways**

According to the respondents, rapid technological advancement in the industry implied that Airlines needed to make large and ongoing improvements to operate more efficiently. With few exceptions, the most successful airlines are those with the strictest cost controls. The biggest (albeit cash-intensive) lever to reduce costs lies in fuel efficiency, as jet fuel typically accounts for 40 to 55 percent of operating expenses. Carriers with sufficient funds have been gradually modernizing their fleet to more technologically advanced ones to incorporate more fuel-efficient aircraft. According to the respondents KQ effort to adopt international technological advancements led the carrier to sink in debt. This was due to the high cost of new plane purchase, this approach has real value only if thoughtfully implemented in line with the carrier's long-term plans for conquering its network, such as the programmatic expansion of certain routes over a period, something KQ was not able to do.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the summary of key data findings, conclusion, discussion, recommendations and areas of research that should be pursued. The conclusions and recommendations drawn are in pursuit of addressing the research objective which was to determine the influence of External environmental factors on financial performance of Kenya Airways.

#### **5.2 Summary of the Findings**

The financial performance above indicates that KQ performance has deteriorated over the years despite increase in sales at an average of 13%. Profitability declined at an average annual rate of 64% with 2013 registering a decline of 604% and 2015 registering a decline of 711%. The number of employees declined at an average of 6% annually for the past ten years while numbers of passengers increased at an average annual rate of 9%. However, passenger load factor decreased at an average of 1% annually while the number and value of aircraft have been increasing at an average of 10% annually. The analysis above indicates that KQ's poor performance is as a result of weak cost controls associated with high debt financing for its expansionary new Jet liner acquisitions.

The respondents comprised of Top management at KQ. Total seven out of the ten targeted respondents provided feedback. The respondents were able to provide reliable and credible information on the effect of international external environment

on KQ performance, the respondents had a total working experience of more than five years with at least three years at the top management level within the commercial Airline sector. All the respondents had enough experience in their fields of work.

External environmental Political and legal factors were found to affect KQ financial performance to a very great extent. All the respondents strongly agreed that the airline is widely impacted by regulations and restrictions related to international trade, tax policy, and competition. It's also impacted by issues like war, terrorism, and the outbreak of diseases such as Ebola.

According to the respondents in 2014, Ebola spread across West Africa including Guinea, Liberia, and Sierra Leone. During fatal disease outbreaks, rules and restrictions are imposed especially on air transportation KQ lost its entire market in West Africa which accounted for 20% of its revenues. Double taxation of its revenues both in Kenya and in countries where it flies continue to impact negatively to a very great extent on its earnings, weakening its competitive edge on the continent and in the world. diplomatic rows has in the recent past affected temporarily their access to certain countries such as to Tanzania this negatively affected their revenues the country's inability to negotiate for direct flight routes between counties such as to the United states due to the threat of terrorism in Kenya that was a factor that negatively affected its costs and passenger volumes.

The respondents strongly stated that the external Economic environment significantly affected the financial performance of Kenya Airways. Kenyan Airlines have less demand compared to foreign Airlines due to their large diverse trade routes and

cheaper transpiration costs. Kenya's expansionary fiscal and monetary policy as well as Measures taken by the CBK to control inflation and exchange rates have influenced exchange rate and interest rates and thereby affect the trade to some extent. Inflation negatively affected its fuel costs hedging strategies. The high interest rates have tripled the costs of their debt leading to massive losses financial year 2013 and 2014. The respondents strongly agreed that rapid technological advancements in the industry informed KQ decision to buy new planes in an effort to adopt international technological advancements has led the carrier to sink in debt due to high interest rates accounting for the interest rates expenses reported in KQ financial statements hence the financial losses.

The study agrees that the organizational strategies employed by Kenya airways have greatly impacted on its financial performance. The ambitious 10 year mawingu strategy which has successfully completed its first phase of implementation has had both negative and positive effects on the financial performance of the airline. Investment in advance technology has seen KQ introduce a system of monitoring fuel consumption from the control room, due to the high costs at the moment, the effect of this system may not be felt yet but it is aimed at reducing the fuel cost in the long run. , route expansion saw Kenya Airways go into new roots like Sierra Leone, which was unfortunately hit hard by the outbreak of Ebola which lead to the suspension of operation to most west African countries. The strategic alliances between Kenya airways and other airlines as the study found also improves its presence in international markets and adds to its financial performance.

The successful acquisition of modern airlines has brought success in the sense that the airline increased its capacity of operation. The completion of the first phase of its fleet renewal program saw the acquisition of Boeing 5 x B787 Dreamliner ,2 x B777-300 ER and 3 X B737-800 NG Dreamliner. Additional strategies that worked to improve the financial performance of Kenya airways included segment focus which improved its engagement with corporate travel agents (TMC) Government leisure and the SME trade segment.

Other strategies that were recently adopted and have so far worked well for financial performance include ; Developing a fully functional mobile solution that targets mobile users looking to do business with Kenya Airways. This system gives solution for mobile booking, payment, check-in, flight status and flight time table; Msafiri connection, a B2B web based solution that converts the inventory in a web application format and distributes it through the World Wide Web. This is a product for SME and IATA travel agents segments; an upgrade of the website to improve functionality and simplify process steps.

### **5.3 Conclusions**

Kenya Airways is today operating in a challenging environment. Competition from other international airline has seen Kenya Airways struggle to sustain itself. The airline operates in an environment where sensitivity to the external environment is key to survival. The study revealed that Kenya Airways financial performance is greatly influenced by the external environmental factors that include political factors such as regulations and restrictions related to international trade and tax policy, economical environmental factors, social factors that set preferences and taste in line with

demographic factors like age, Technological factors that include paperless ticketing, customer friendly internet interface that allows for real time online booking, ticketing and checking in, environmental and legal factors like trade policies when entering new markets.

Kenya Airways has long struggled with margins, but the current phase in the international business environment coupled with evolving technology and customer preferences, increased competition and diminishing margins. There is call for aggressive management of KQ costs as well as enhancement of Government support in ensuring bilateral trade agreements are entered into with several counties targeting double taxation agreements and access to international trading routes .This can be done by negotiating for direct flights between Kenya and the US. The pricing of KQ transportation costs should be benchmarked with those of its leading competitors in order to ensure that idle assets which are fast depreciating and which the carrier is currently paying high interest rates for are utilized and revenues for the organization are maximized. By adopting the measures described here, carriers can forge better relationships with customers, cut costs selectively, and improve their financial performance in a sustainable way either alone or with the right set of partners.

#### **5.4 Recommendations**

The global airline industry continues to grow rapidly, but consistent and robust profitability is elusive. Measured by revenue, the industry has doubled over the past decade, from US\$369 billion in 2004 to a projected \$746 billion in 2014, according to the International Air Transport Association (IATA).Much of that growth has been driven by low-cost carriers (LCCs), which now control some 25 percent of the

worldwide market and which have been expanding rapidly in emerging markets; growth also came from continued gains by carriers in developed markets,. Yet profit margins are razor thin, less than 3 percent overall.

In the commercial aviation sector, just about every player in the value chain airports, airplane manufacturers, jet engine makers, travel agents, and service companies, to name a few turn a tidy profit. Yet it's one of the enduring ironies of the industry that the companies that actually move passengers from one place to another, the most crucial link in the chain, struggle to break even. That is largely due to the complex nature of the business, manifested in part by the significant degree of regulation (which minimizes consolidation), and the vulnerability of airlines to exogenous events that happen with great regularity, such as security concerns and infectious diseases. But ongoing price pressure is also a factor; the airline industry is one of the few sectors that have seen prices fall for decades. Since the 1950s, airline yields (defined as the average fare paid by a passenger per kilometer) have consistently dropped.

The study recommends that KQ needs to make large and ongoing cost improvements to operate more efficiently. With few exceptions, the most successful Airlines are those with the strictest cost controls. The biggest lever to reduce costs lies in fuel efficiency, as jet fuel typically accounts for 40 to 55 percent of operating expenses. Carriers with sufficient funds have been gradually modernizing their fleet to incorporate more fuel-efficient aircraft. Yet, because planes are so expensive, this approach has real value only if it is thoughtfully implemented in line with the carrier's long-term plans for the configuration of its network, such as the programmatic expansion of certain routes over a period of years.



Cost reduction can also be achieved through enhancements in organizational structure. The rapid growth of air travel in developing markets, such as Latin America and especially Asia, is shifting the industry's center of gravity. Middle East-based carriers such as Emirates, Etihad Airways, and Qatar Airways are taking a large slice of the formerly profitable Europe-Asia traffic from those continents. The Middle East carriers are highly dependent on connecting traffic, because their home markets are limited by the smaller population of their region yet they are uniquely positioned geographically. Most of the world's population is within eight hours' flying time, this means they are able to capture a disproportionate share of long-haul market growth.

Similarly, LCCs continue to experience above-average growth rates for the industry, particularly in emerging economies with many first-time fliers. Worth noting, however, is that LCCs also increasingly face rising customer expectations, especially in mature markets. These carriers will need to find the right balance between making investments to improving the experience they offer and maintaining their cost advantage. As is true in other industries, understanding individual customer preferences and consumer-related activities is essential to delivering personalized service and targeted offerings. In most cases, carriers need to invest in more advanced customer analytics. And technology alone is not enough; KQ must also rewire their organization and processes to embed customer service into their organizational ethos.

For example, at each point of interaction between the passenger and the airline looking up flights, booking, check-in, boarding, and in-flight experiences KQ can capture richer data about customer preferences, and constantly seek to exceed their expectations. As a result of such an approach, KQ would gain a greater chance to generate ancillary revenue, and through loyal customers a higher percentage of sales

coming through direct channels (rather than through online travel sites, which take a cut of revenue).

Kenya Airways can also gain cost reduction by working on its pricing. Currently the cost of flying an economy class in Kenya Airways is almost the same as flying business class in other airlines. This locks out travelers who wish to fly the Pride of Africa, reducing their customer base significantly. The airline needs to revise its prices downwards to match the market and competitor prices. This will increase its traffic and improve profit. With good profits, the airline will balance the operating cost and boost its profitability.

The study recommends that Kenya Airways reviews its flight timetable particularly for the routes that are not profitable. Some of these routes have few travelers yet big planes are routed to these areas. To avoid this the airline needs to invest in market research, to establish with certainty the routes that need this cut effected.

KQ must also use new technology internally to streamline their operations and reduce costs. In reducing expenses, KQ must determine not only how far to cut, but also where to cut. A critical part of the process is identifying the set of essential capabilities that differentiates them from their rivals in the view of customers. Management needs to be ruthless in cutting costs in all other areas that are not relevant to safety, reputation, branding, or customer value. KQ should continue to seek partnerships that can complement and even improve what they do best, as well as close glaring gaps. In most cases, these partnerships will be more targeted and synergistic than the traditional alliances that now dominate. Those alliances allow

route sharing on a broad basis, but they aren't tailored narrowly enough to allow KQ to strategically fill in specific gaps. KQs alliance with KLM should be revisited to ensure that it is financially profitable for the airline.

The exchange rate of the day impacts on the airlines profitability. The recent weakening of the Kenyan shilling against the dollar has seen Kenya airways lose out on profits. The study recommends that the Central bank of Kenya should work on stabilizing the shilling to impact positively of the National carriers' profitability and to control cost.

Double taxation of its revenues both in Kenya and in countries where it flies continues to impact negatively on its earnings to a very great extent, weakening its competitive edge on the continent and in the world. They strongly stated that they needed assistance in the issue of double taxation because KQ was paying tax twice due to the Government's failure to expedite the signing of bilateral agreements with other countries where it flies to in a bid to eliminate double taxation that continues to hurt its business.

The Government of Kenya has been supportive in sustaining the operations of Kenya Airways. Among its recent activities, the Government created the Northern Corridor Integrated Projects Summit together with South Sudan, Uganda and Rwanda as a regional integration block to push for growth of regional trade. They are seek to enforce common visa requirements and abolish trade barriers including creating a common airspace which will liberalize traffic rights for the airlines of these countries.

Through Vision 2030, the Government continues to support the local aviation industry and notable achievements have been made. For instance the launch of Terminal 1A, Terminal 2 and the construction of the Greenfield Terminal which will create the much needed space for Kenya Airways and further enhance JKIA as a regional hub. These efforts by the Government have a direct positive influence to Kenya Airways financial performance. The study recommends that the Government signs bilateral agreements to address the issue of double taxation and to negotiate fair foreign market policies to safeguard Kenya Airways new market entries, and enable it maximize on new market opportunities for better returns. Kenya Airways should have greater focus on cost management, operational efficiency, productivity of human resource and strategies that are adoptive to the external environment for financial sustainability and better competition.

### **5.5 Limitations of the Study**

Since it was a case study focusing on one Institution the data gathered might differ from other Airlines. This is because different institutions adopt different ways to responds to the External environmental factors of global business arena. The study however, constructed an effective research instrument that sought to elicit general and specific information on how External environmental factors of global competition have affected KQ performance .The study faced both time and financial limitations. The duration that the study was conducted was limited hence exhaustive and extremely comprehensive research could not be carried out on how External environmental factors affect the financial performance of Kenya Airways. The study, however, minimized these by conducting in-depth interviews that significantly covered the shortcomings of the study

### **5.6 Area for Further Research**

The researcher recommends that a similar study be done on the Airlines in Kenya for the purposes of benchmarking since the business environment has become very volatile following the high level of globalization effects and market liberalization. Organizations are forced to invent new ways of dealing with their current problems in order to survive the high competition. This would enable generalization of study findings.

### **5.7 Implications on Policy, Theory and Practice**

The management of Kenya Airways and other airline companies should use the study to benefit the organization by formulating response strategies to counter the External environmental factors of ever changing business environment following increased globalization. The government and policy makers should get insight from the study in formulating policies that would lead to markets liberalization hence move in the right direction since reform is necessary to support the long-term health of the industry.

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# APPENDICES

## Appendix I: Letter of Introduction



**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**  
**MBA PROGRAMME**

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

P.O. Box 30197  
Nairobi, Kenya

DATE 15/09/2015

**TO WHOM IT MAY CONCERN**

The bearer of this letter PRISCA AKIMTI OCHIENG

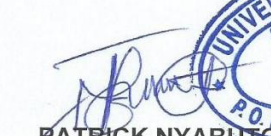
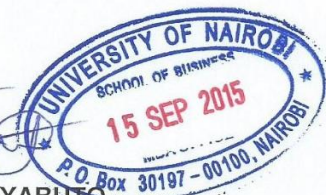
Registration No. DAI/79135/2012

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.

  
  
**PATRICK NYABUTO**  
**MBA ADMINISTRATOR**  
**SCHOOL OF BUSINESS**

## **Appendix II: Interview Guide**

### **SECTION A: General information**

1. What is your position in the company?
2. In which department are you?
3. How long have you worked in the aviation industry?

### **SECTION B: Strategic Management Decisions**

4. Does KQ have a financial performance strategy?
5. How often is the financial strategy reviewed?
6. What influences the review of the financial performance strategy?
7. What are some of the recent strategic decisions KQ has taken for its financial performance?
8. What alliances does KQ have for its financial performance?
9. How has the purchase of new aircrafts affected financial performance?

### **SECTION C: External Influence on Financial performance**

10. How relevant are external environmental factors to financial performance of KQ.
11. Which key external environmental factors affect KQs financial performance?
12. What is the effect of external political environment on KQ financial performance?
13. What is the effect of external legal environment on KQ financial performance?
14. What is the effect of external socio-cultural environment on KQ financial performance?
15. How does KQ compare to competitors in adoption of latest technology?
16. What is the effect of technological environment on KQ financial performance?

17. In what way has foreign taxes and double taxation agreements affected KQ financial performance?

**SECTION D: Response strategies**

18. What strategy do you recommend the airline to adopt to safeguard its finances from the external environmental instabilities?

19. What strategy should the airline adopt to increase its customer base for improved financial performance?

20. What strategies and policy interventions would you advise the Government to implement in order to reverse the worrying trend in financial performance of the National carrier

*Thank You*