

**VALUE CHAIN FRAMEWORK AND COMPETITIVE ADVANTAGE IN  
KENYA AIRWAYS LTD**

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## DECLARATION

This research project is my original work and has not been presented for examination in any other University.

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## **DEDICATION**

This work is dedicated to my dear husband Mr. Njeru for your support and to my lovely daughter Wangui for your patience and understanding while I was away attending evening classes, studying and seating for examinations especially during the weekends.

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## **ABBREVIATIONS AND ACRONYMS**

**KQ** - Kenya Airways

**KLM** - Royal Dutch Airlines

**JKIA** - Jomo Kenyatta International Airport

**PESTEL** - Political, Economic, Social, Technological, Environmental, and Legal

**IATA** - International Air Transport Association

**HRM**- Human Resource Development

**ABC** - Activity Based Costing

**TQM** - Total Quality management

**EDI** - Electronic Data Manufacturer

**OEM** - Original Equipment manufacturer

**I-O theory** - Industrial-Organization theory

**RBV** - Resource-Based View

**IFE** - In-flight Entertainment

**CSD** - Common Service Delivery

**GHA** - Ground Handling Agent

**GSE** - Ground Support Equipment

**KALPA** - Kenya Airline Pilots Association

## ABSTRACT

Given today's economic environment, greater operational cost efficiency is key to all organizations. This has driven a significant change in hiring demand and requirements for most businesses, causing companies to re-evaluate their recruitment process and cost structure. Companies must reduce costs in order to provide a product or a service. Reduction in labor costs is one way to reduce costs of production. A value chain is a set of activities that an organization carries out to create value for its customers. It is the whole series of activities that create and build value at every step. The total value delivered by the company is the sum total of the value built up all throughout the company. Value chain framework identifies a firm's primary and support activities that add value to its final product or service, and then analyse these activities to reduce costs. It is essentially improving business value chain to strengthen its competitive advantage. Understanding how your company creates value, and looking for ways to add more value, are critical elements in developing a competitive strategy (Michael Porter, 1980). Porter proposed a general-purpose value chain that companies can use to examine all of their activities (primary and support activities) and see how they're connected. The way in which value chain activities are performed determines costs and affects profits, so this tool can help one understand the sources of value for your organization. In deep debt and registering losses since 2013, our national carrier Kenya Airways Ltd currently uses Hines Model, whose approach is on customer-focused value chain. The airline's key focus now and its main strategy should be to gain competitive advantage in the airline industry. It needs to gear itself back to profitability and this can only be achieved by applying Porter's Value Chain whose approach is driven by profitability. It separates useful value-creating activities that allow the firm as a whole to gain competitive advantage, from the wasteful activities that hinder the company from getting a lead in the market. The data was collected using an interview guide, and the targeted respondents were sectional heads in operations, marketing, commercial, customer relations and human resources departments. The data collected was analysed using content analysis. Conclusion drawn from the study of the application of Porter's value chain model by Kenya Airways may point at the key areas that require urgent management attention because the process of adopting the Porter's value chain ('push' strategy) is still on-going. This study has revealed the extent to which Kenya Airways has adopted the Porter's value chain model ('push' strategy) in execution of its core competencies. As the study focused on the various parameters of the value chain model; business process, structure and direction, primary activities, and secondary activities; from the responses the practices in relation to these parameters supporting the 'push' strategy have been effected but the analysis of the specific practices under each parameter revealed a number of possible value chain aspects that may be improved. The study will assist Kenya Airways management match their organization strategy to ensure direct impact on profitability initiatives. This will be realized from the cost reduction programs realized by outsourcing the non-core functions in the organization. An improvement in service delivery and customer satisfaction will be realized when the customer facing functions are empowered with the right skill and rewards, thus lead to increased revenue. With expected increase in revenue, versus reduction in cost, we will expect turnaround to profitability. In conclusion, adopting Porter's value chain model in Kenya Airways will go a long in improving the operational productivity, reduce cost, enhanced customer experience, and take the company to a turnaround drive to profitability. The creation of value chain by adopting this model it will ensure creation of a unique service model to enable Kenya Airways gain competitive advantage, leading to an increase in sales, hence making it possible to return to profitability.



# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

The impact of global economics on the airline's cost base has led to increased competition in the aviation industry. Even those regarded as successful airlines have had to re-examine their models and strategies to understand how they can compete by implementation of cost management, revenue generation strategies, and competitive techniques that are relevant in today's marketplace. Every firm is a collection of activities that are performed to design, produce, market, deliver and support its product or service. All these activities can be represented using a value chain. A firm's value chain and the way it performs its individual activities are a reflection of its history, its strategy, its approach to implementing its strategy and the underlying economies of the activities themselves (Porter 1985). Competitive advantage is critical to the success of a business; therefore value chain framework describes the activities within and around an organization and relates them to an analysis of the competitive strength of that organization.

Key theories that form the theoretical foundation of this study include: the Industrial-Organization (I/O) and the Resource-Based View (RBV) theories of organization which present different perspectives on how best to capture and sustain competitive advantage. Industrial-Organization (I/O) builds on the theory of the firm by examining its internal structures and its environment at large. It looks at the challenges organizations go through as a result of environmental forces beyond their control. The Resource-Based View (RBV) theory provides a simple perspective for accessing and analysing the competitive strength and position of an organization. A central premise of the Resource-Based View is that firms compete on the basis of their resources and capabilities.

In the context of the study, the aviation industry in Kenya has experienced low passenger traffic due to terrorism, Kenya Airways being amongst the airlines impacted by this. Kenya Airways, the national carrier of Kenya, has experienced changes in its environment which have caused major turbulence. By and large, KQ has been affected by numerous factors in both its internal and external environment, namely: over ambitious expansion program, change in international political landscape, internal conflicts and unintended consequences, public and international misperception and terrorism.

The airline is currently in a crisis, whereby it plunged into a record Ksh.25.7 billion loss after tax, for the 12 months that ended in March 2015. It has been termed as the worst performance in the country's corporate history. The airline management explained this loss by stating that the company was going through hard times after heavy investments in new aircraft failed to earn the expected profits due to the difficulties experienced in the aviation sector during the financial year. KQ's financial health is critical to the performance of tourism and horticulture, and these two are crucial to Kenya's economy. With exports performing badly, the current account deficit is headed to double digit. In addition, KQ is the de facto national airline for several countries in the region. It has better point-to-point connection than any other airline in Africa continent. Moreover, the airline's health is also critical to Kenya's ambition to be the transport and financial services hub in the region. Consequently, the aim of this study was to determine whether Porter's value chain model will enhance competitive advantage at Kenya Airways Ltd.

### **1.1.1 Value chain framework**

Value analysis was originally introduced as an accounting analysis to shed light on the ‘value added’ by separate steps in complex manufacturing processes in order to determine where cost improvements could be made or value creation improved, or both. These two basic steps of identifying separate activities and assessing the value added by each were linked to an analysis of an organizations’ competitive advantage by Porter (1985).

Value chain framework is concerned with a detailed examination of each subsystem in a supply chain and every activity within these subsystems with a view of delivering maximum value at the least possible total cost, therefore enhancing value and synergy throughout the entire chains (Lysons and Farrington, 2006). Pearce and Robinson (1997) indicate that value chain analysis is based on the assumption that a business’s basic purpose is to create value for users of its products or services. Therefore in value chain framework, managers divide the activities of their firm into sets of separate activities that add value. Their firm is viewed as a chain of value-creating activities starting with procuring, raw materials or inputs and continuing through design, component production, manufacturing and assembly, distribution, sales, delivery and support of the ultimate user of its products or services.

In addition, value chain framework describes the activities within and around an organization and relates them to an analysis of the competitive strength of the organization (Johnson and Scholes, 2002). Pearce and Robinson (1997) further add that each of these activities can add value and each can be a source of competitive advantage. The main steps in value chain framework include: identification of the appropriate value chain activities and assigning costs and assets to them; diagnosing the cost drivers of each value activity and how they interact; identification of the competitor’s value chains and determining the relative costs to competitors

and the sources of cost difference; development of a strategy to lower your relative cost position by controlling cost-divers or reconfiguring the value chain and downstream value; lastly, ensuring that cost reduction efforts do not erode differentiation and testing the cost reduction strategy for sustainability.

### **1.1.2 Competitive Advantage**

In 1980, Porter defined the two types of competitive advantage an organization can achieve relative to its rivals: lower cost or differentiation. This advantage derives from attributes that allow an organization to outperform its competition, such as superior market position, skills, or resources. In Porter's view, strategic management should be concerned with building and sustaining competitive advantage. Strategic management is all about gaining and maintaining competitive advantage. This term can be defined as anything that a firm does especially well compared to rival firms. When a firm can do something that rival firms cannot do, or owns something that rival firm's desire, that can represent a competitive advantage. Getting and keeping competitive advantage is essential for long-term success in an organization.

Pursuit of competitive advantage leads to organizational success or failure. Normally, a firm can sustain a competitive advantage for only a certain period due to rival firms imitating and undermining that advantage. Thus it is not adequate to simply obtain competitive advantage. A firm must strive to achieve sustained competitive advantage by continually adapting to changes in external trends and events and internal capabilities, competencies, and resources and by effectively formulating, implementing, and evaluating strategies that capitalize upon those factors.

### **1.1.3 Value chain framework and Competitive Advantage**

To better understand the activities through which a firm develops a competitive advantage and creates shareholder value, it is useful to separate the business system into a series of value generating activities referred to as the value chain. Every firm is a collection of activities that are performed to design, produce, market, deliver and support its product or service. All these activities can be represented using a value chain. A firm's value chain and the way it performs its individual activities are a reflection of its history, its strategy, its approach to implementing its strategy and the underlying economies of the activities themselves (Porter 1985). The term value chain was therefore used by Porter (1985) to describe an organization's activities and performance, and links them to its competitive position.

Competitive advantage is critical to the success of a business. According to Johnson and Scholes (2002) value chain framework describes the activities within and around an organization and relates them to an analysis of the competitive strength of the organization. Pearce and Robinson (1997) further add that each of these activities can add value and each can be a source of competitive advantage. Value chain framework therefore enables the firm to identify and concentrate on its core competences and outsource those functions and resources where it has no distinctive competencies (Porter, 1985). Johnson and Scholes defined distinctive competencies as those resources organizations possess that are relatively unique and provide a valuable service to customers. Pearce and Robinson noted that by identifying and examining both its core and non-core functions, managers often acquire an in-depth understanding of their firm's capabilities, its cost structure, and how these create competitive advantage.

#### **1.1.4 Aviation Industry in Kenya**

The aviation industry has contributed to the globalization of the world economy. It connects buyers and sellers. It also transports passengers and goods across nations. It breaks the barrier of distance and time. Like any other business, the aviation industry internationally and also in Kenya is and has been impacted by changes in its external environment. Johnson and Scholes (2002), identify political, economic, social, technological and ecological factors as comprising the external environment that presents the organization with opportunities, threats and constraints. Leaders in organizations have to constantly monitor developments in the environment and take action to maintain an appropriate relationship between their organization and external environment. This relationship is the strategy of the organization. Burnes (2000) contends that due to political, economic, social and technological changes, history of organizations has been that of change and upheaval, since the industrial age. Because of the pace of change and uncertainty, such change vary from organization to organization however, no matter what level of turbulence is, what matters is the ability of the organization to cope with the environmental constraints, challenges and threats.

The PESTEL framework covers the six external factors that impact the aviation industry in Kenya. The framework provides a broad perspective on opportunities and threats that surround this industry. These factors cannot be controlled by the industry, and they include: Political and legal factors; airlines operate in a political environment that is very regulated and restricted. Government intervention can be necessary to protect the passengers' interests and airline operations' safety measures. Economic factors; a healthy economy acts as a catalyst for industrial growth. Fluctuation in oil prices is a major factor that impacts airlines' profitability.

Considering airlines' operating performance, fuel costs constitute a large portion of an airline's operating expenses. Historically, fuel has accounted for between 10 to 15 percent of airline operating costs. Currently, fuel makes up 20 to 30 percent of operating costs (Air Transport Association, 2009). According to the IATA (International Air Transport Association) fuel expenses outranked labour expenses as largest single cost item in the global aviation industry. Please note that three top costs for an airline, in order of highest to lowest, include: Fuel, Labour and Maintenance.

Social and demographic factors; the demand for air travel has increased significantly over the years. This indicates changing travel preferences among the latest generation. Demographic factors play an important role in forecasting demand and future travel preferences. Technological and environmental factors; to survive the intense competition in the aviation industry, companies must adopt the latest technology. The use of advanced aircraft technology results in lower fuel consumption. This improves efficiency and the cost of airline operations. Technology is also one of the four pillars under the IATA strategy to address climate change. Most airlines have been replacing their old aircraft with new fuel efficient ones; a good example is Kenya Airways.

### **1.1.5 Kenya Airways Ltd**

Kenya Airways Ltd is the flag carrier 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. The airline was wholly owned by the Government of Kenya until April 1995, and it was privatised in 1996, becoming the first African flag carrier to successfully do so. 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. The rest of the shares are held by private owners; shares are traded on 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, as of January 2013, the carrier was ranked fourth among the top ten ones that operate in Africa by seat capacity. The airline became a full member of SkyTeam in June 2010, and is also a member of the African Airlines Association since 1977. The cargo handling company African Cargo Handling Limited is a wholly owned subsidiary of Kenya Airways. Partly owned companies are Kenya Airfreight Handling Limited, dedicated to the cargo handling of perishable goods (51% owned), and Tanzanian carrier Precision Air (41.23%-owned). A new low-cost subsidiary namely Jambojet was founded in 2013.

In recent developments and future plans KQ's first of five Embraer 190s was incorporated into the fleet in December 2010. An additional order for ten aircraft of the same type was placed in August 2011; the carrier took delivery of the first and second of these fully owned aircraft in September 2012. KQ announced in late February 2011 its intention of acquiring a freighter aircraft to boost cargo capacity on African operations. Until February 2012, when a joint freighter service with KLM was launched, the carrier's cargo division has been using belly capacity on its operations. Furthermore, the airline announced in October 2012 the conversion of some Boeing 737-300s into freighter aircraft.



The first of four converted Boeing 737-300s was delivered to the company in April 2013; Kenya Airways flies this aircraft on routes to Eastern, Central and Southern Africa that are served by the Embraer 190s, in order to boost cargo capacity. The company took delivery of its first Boeing 777-300ER, on lease from GECAS, in October 2013. Kenya Airways had nine Boeing 787 Dreamliners on order, as of April 2011, although the company considered cancelling the order after systematic delays with the delivery dates. The airline received some compensation, in cash and in kind, from Boeing for the delays. Afreximbank is financing the acquisition of the 20 aircraft the airline has on order. The handover of the first Boeing 787 took place on 4<sup>th</sup> April 2014. As of April 2015, the carrier was set to sell some aircraft, including four Boeing 777s, following a decrease in passenger traffic and as a strategy to generate funds to cater for some of its financial burdens. As of January 2015, the carrier's fleet consisted of 43 aircraft.

## **1.2 Research Problem**

The Porter's approach is driven principally by a profitability objective while the Hines's approach is guided by customer satisfaction objective. It's a 'push' system for Porter's approach while Hines's approach is a 'pull' system. Organizations have adopted either Porter's or Hines's model in their operations and this has affected them in one way or another. However as stated by Ghalayini and Noble (1996), organizations have to realign their processes to environmental changes in order to enable them compete effectively. Value should be the driving force behind such processes and readjustments since global market considers value rather than the cost as the primary success driver.

An organization that is able to use its value chain to create competitive advantage is able to continually reinvent itself and therefore have sustainable competitive advantage that will ensure it will remain competitive in the long run. Kenya Airways has been in turbulence since 2013; however, after posting its results for last financial year 2014/2015, it is clear that the company seems stuck in the hostile business environment, and if no drastic measures are taken, it may not survive this turbulence. KQ successfully completed the first phase of its fleet renewal program last financial year, involving the acquisition of the long delayed 5x B787 Dreamliners, 2x B777-300 and 3x B737-800NG.

These investments however coincided with a difficult business environment driven by the incidences of terrorism in the country, together with adverse external factors like West African Ebola crisis and the effects of travel advisories. In addition, during this period the Kenya shilling weakened against the dollar with the average exchange rate at Kshs 89.05 compared to Kshs 85.92. in the prior year. Competition was intense particularly from the Middle East carriers who are well cushioned by the fact that their region has sufficient supply of fuel at low cost. And not to forget fluctuations of fuel prices, which did not favour the airline due to the commonly used strategy of fuel hedging. As a result, both the operational and financial performance of the airline for last financial year has been adversely impacted. This study was therefore geared towards establishing the extent to which KQ has adopted both the Porter's model and Hines' models in its operations, and which of the two models will direct towards achievement of competitive advantage.

Among other studies carried out in the area of value chain are Ouma (2009) who made an investigation into the application of Porter's value chain at the KRA (Kenya Revenue Authority). Munyi (2011); the researcher carried out a survey on Porter's value chain model and competitive advantage in the oil industry in Kenya. Mugo (2011) carried out a survey on business process outsourcing strategy and competitive advantage in Commercial banks of Kenya. From the studies carried out, it appears that value chain activities and how they are performed do create value to customers who are the main focus of any business. However, these studies made earlier on the value chain may not be expected to provide insight on whether the adoption of either of the value chain models does enhance competitive advantage.

This study was aimed at answering the following question: To what extent has KQ adopted the Porter's value chain model, the Hine's value chain model, and would Porter's value chain model direct towards the achievement of competitive advantage?

### **1.3 Research Objectives**

This study determined the extent to which KQ has adopted the Porter's value chain model, the Hine's value chain model, and established if Porter's value chain model will direct towards the achievement of competitive advantage.

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

The findings of this study are expected to provide the managers and other decision makers of KQ with insights into the benefits of proper adoption of the Porter's value chain model in identifying its core and non-core functions that separate useful value-creating activities that allow the firm as a whole to gain competitive advantage, from the wasteful activities that hinder the company from getting a lead in the market.

In addition, the value chain will also help KQ to incorporate outsourcing thus help the company to focus and perform well in their core competencies, and also reduce labour costs. The airline's key focus now and its main strategy is to gain competitive advantage in the aviation industry. It needs to gear itself back to profitability.

The study will also provide an insight that will be useful to firms aiming to gain competitive advantage over its rivalries. Last but not least, the study is also important to scholars wishing to carry out further studies in KQ or the aviation industry as a whole.

#### **1.5 Summary**

This chapter has elaborated how Porter's value chain model can help Kenya Airways create competitive advantage to help them remain relevant in the ever dynamic aviation market. Further, this chapter has described the past study on the value chain model, case study being at the KRA. Finally, this chapter has explained the applicability of the intended study to the KQ management in formulating their strategy to gear the organization back to profitability. The next chapter will be discussing written literature on the value chain framework to assist align this study to the best practice in Porter's value chain implementation.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents the literature review as presented by other authors and researchers in the same field of value chain models. The various sections presented here are; the Theoretical Foundation, the Industrial-Organization (I/O) and the Resource-Based View (RBV) theories, Value Chain in Organisations with a review on both the Porter's and Hines's Value Chain Models, Indicators of Competitive Advantage and lastly, Empirical studies and Knowledge gaps.

#### **2.2 Theoretical Foundation**

Key theories that form the theoretical foundation of this study include: the Industrial-Organization (I/O) and the Resource-Based View (RBV) theories of organization which present different perspectives on how best to capture and sustain competitive advantage.

##### **2.2.1 Industrial/Organization Theory**

Industrial-Organization (I/O) builds on the theory of the firm by examining its internal structures and its environment at large. It looks at the challenges organizations go through as a result of environmental forces beyond their control. A change in any of the forces normally requires the organisation to re-assess their market position given the overall change in the industry. However, the overall industry attractiveness does not imply that every firm in the industry will return the same profitability. Firms are able to apply their core competencies and business model to achieve a profit above the industry average. It is not feasible to evaluate the attractiveness of an industry independent of the resources a firm brings to that industry. It is thus argued (Wernerfelt 1984) that this theory is coupled with the Resource-Based View in order for the organisation to develop a much more sound strategy.

### **2.2.2 Resource-Based View Theory**

The Resource-Based View (RBV) theory provides a simple perspective for accessing and analysing the competitive strength and position of an organization. Initiated in the mid-1980s by Wernerfelt (1984), Rumelt (1984) and Barney (1986), RBV has since become one of the dominant contemporary approaches to the analysis of sustained competitive advantage. A central premise of the RBV is that firms compete on the basis of their resources and capabilities (Peteraf and Bergen, 2003). Most resource-based view researchers choose to look within the organisation and down to the factor market conditions that the organisation must contend with, to search for some possible causes of sustainable competitive (Peteraf and Barney, 2003).

Adoption of the Porter's value chain model to enhance profitability and gain competitive advantage is guided by variables according to the value chain parameters, system of the business processes applied, structure and direction being guided by the model, primary activities, and lastly secondary activities which may be separated from the organizational business processes (outsourced) in order to determine the principal objective of the model as the key parameter. The system of the business processes of the Porter's value chain model should show a 'push' system whereby profitability is the determinant. The structure and direction of the Porter's value chain model should be one large flow pointing from raw materials sources to consumer. The primary activities of the Porter's model should be based strongly on inbound logistics, operations, outbound logistics, marketing & sales, and service. Pearce and Robinson (1997) clarifies that primary activities are those involved in the physical creation of the product, marketing and transfer to the buyer and after-sale support.

Lastly in the secondary activities, the Porter's value chain emphasizes on the utilization of concepts like procurement, which is basically involved in acquiring resource inputs to the primary activities; Technology development which consists of a range of activities related processes and resource utilization including research and development; HRM mainly involved in the recruiting, hiring, training, development and compensation of all types of personnel, labour relations activities, and development of knowledge-based skills; Infrastructure which consists of a number of activities, costs and assets relating to general management, planning, finance, accounting, legal and regulatory affairs safety and security and quality management. When an organization practices are according to Porter's value chain specification defining the various parameters, their principal objective is to achieve profitability.

### **2.3 Value Chain in Organisations**

Based on the seminal work of Porter (1985), the value chain came to be understood in the context of the internal activities of a company that create value for its customers. The value chain took a holistic approach and induced management of each of the company's elements. That view led to further refinement in the value delivery system (Bower & Garda, 1985; Evans & Berman, 2001). As researchers refined the value delivery system concept, it becomes clear that the system, including its suppliers, partners, manufacturers and customers was the important focus. The value chain for any organisation in any business is the linked set of value creating activities all the way from basic raw material sources for component suppliers through to the ultimate end-use product delivered to the customer (Johnson & Scholes, 2002). Kotler (2003) adds that every firm is viewed as a collection of value activities that are performed to design, produce, market, deliver and support its product or service.

The key assumptions of value chain are that organizations are much more than a random compilation of machines, money and people (Johnson & Scholes, 2003). These resources are of no value unless they are deployed into activities and organized into routines and subsystems that ensure products or services are produced and are valued by the customer. Optimization of the strategic capacity of an organization entails identification of separate value activities and analysing value contributed by each activity.

Access to all the capabilities in a value chain is required in order to compete over the long term in that business (Thompson, Strickland and Gamble, 2007). However, an organization can gain this access in a variety of ways. One of the fundamental issues in developing operations strategy, i.e. competitive strategy, is which activities should be performed internally, and which ones should be left to others such as suppliers, customers or partners. The main goals of value chain are; to measure the value attributes and appreciate how various functions or activities within supply chain adds value. Secondly, to identify value attributes in services and products and lastly, to understand the customer requirements and communicate them to suppliers.

“Important value chain models have been developed by Professor Michael Porter and Professor Peter Hines” (Lysons and Farrington, 2006). The main differences between the two approaches are on the principal objectives, on the process followed, on the structure and direction, on classification of primary activities and finally on the classification of support activities. The porters approach is driven principally by a profitability objective while the Hines’s approach is guided by customer satisfaction objective. It’s a ‘push’ system for porter’s approach while Hines’s approach is a ‘pull’ system.



## **2.4 Hines's Value Chain Model**

In his Journal "The value chain redefined," Hines (1993) recognized that Porter made two valuable contributions to the understanding of value chain systems. First, Porter places a major emphasis on the materials management value-adding mechanism, raising the subject to a strategic level in the minds of serious executives, and second he places the customer in an important position in the supply chain. However, Hines (1993) proposed a customer focused value chain approach that differs with Porters profit based approach. He therefore offered alternative models to support his customer focused approach.

The Hines's primary activities concentrate strongly on focused value of the product or service in its different stages, suggesting that the main objective of the value chain is to add value for the consumer. As a result of this, the consumer and primary activities are based strongly on different teams: marketing team, materials team, engineering team, quality team, research and development team, and design team all working together jointly to define product value at each stage, and the value chain has been turned around to face the opposite direction to that in Porters model (Lysons and Farrington, 2006). Hines model emphasizes that the primary functions in each of the separate firms in the value chain must integrate all external barriers and internal divisions must be broken down, and there should be collaboration rather than just competition (Hines, 1993).

Moreover in the secondary activities, Hines emphasizes utilization of concepts like transparent costing system (ABC), knowledge creation (HRM/training/education), Quality (TQM) and quick response to customers (EDI). Activity based costing (ABC) is a cost attribution to cost units on the basis of benefits received from indirect activities e.g. ordering, setting up and assuring quality thus it is a tool for assessing a company's cost competitiveness (Thompson, Strickland &

Gamble, 2007). Human Resource Management involves activities like employee training and education which facilitates effectiveness efficiency and pro-active thinking. Total Quality management provides a culture for all network members. Electronic data interchange together with intranets and Extranets and so on facilitate quick response to customer requirements and draw network members closer together. Lastly, Profit should be roughly equalized between network members and result from reducing total production and consumption costs to below what consumers are willing to pay for products meeting their specifications.

## **2.5 Michael Porter's Value Chain Model**

The concept of value chain has been popularized by Professor Michael Porter and has proved very useful in business process re-engineering as a strategy for increasing customer value and shareholders' value at the same time (Porter, 1985). As developed by Porter, this approach of value chain is one way to disaggregate the firm for purposes of internal analysis and systematically viewing the series of activities a firm performs to provide its customers with a product or service. According to Pearce and Robinson (1997), the value chain disaggregates a firm into its strategically important activities in order to understand the behaviour of the firm's cost and the firms' existing potential sources of differentiation. A firm gains competitive advantage by performing these strategically important activities that include key internal factors, more cheaply or better than its competitors.

Furthermore, value chain analysis is based on the assumption that a business's basic purpose is to create value for users of its products and services (Pearce and Robinson, 1997). In value chain framework managers divide the activities of their firm into sets of separate activities that add value.

Porter (1985) states that the activities of a business can be classified into two major categories, five primary activities and four support activities, each of which will potentially contribute to competitive advantage. Pearce and Robinson (1997) further clarifies that primary activities are those involved in the physical creation of the product, marketing and transfer to the buyer and after-sale support. Support activities assist the primary activities by providing infrastructure or inputs that allow them to take place on an on-going basis. The goal of these activities is to offer the customer a level of value that exceeds the cost of the activities thereby resulting in a profit margin. The literature below shows the primary and the support activities of the value chain model by Professor Michael Porter.

Porter (1985) identifies five primary activities that add value to the logistics and final output of a company. These are: inbound logistics, operations, outbound logistics, marketing and sales, and services. First is the inbound logistics; these activities involve managing the flow of products into the company. (Hooley et al, 2008); Johnson and Scholes (2002); Lysons and Farrington, 2006; Pearce and Robinson (1997) and Porter (1985) have described the inbound logistics as all activities linked to receiving, handling and storing inputs into the production system, including warehousing transport and stock control.

The second primary activity is operations; Hooley et al (2008) argue that operations have long been seen as the central activity of businesses. Traditionally this has been seen as the area where value is added to a company's products or services. Consequently Johnson and Scholes (2002); Lysons and Farrington (2006); Pearce and Robinson (1997) and Porter (1985) describe operations as all activities involved in the transformation of inputs to outputs as the final product

or service. They have clarified that in a manufacturing enterprise, these would include production, assembly, quality control and packaging. While in a service industry, these include all activities involved in providing the service, such as advice, correspondence and preparation of documents by a legal firm.

The third primary activity is outbound logistics. According to Johnson and Scholes(2002); Lysons and Farrington (2006); Pearce and Robinson (1997) and Porter(1985),outbound logistics carry the product from the point of operations to the end user, including finished goods warehousing, order processing, order picking and packing, shipping, transport and maintenance of a dealer or distribution network. Marketing and sales is the fourth primary activity and Johnson and Scholes (2002); Lysons and Farrington (2006); Pearce and Robinson (1997) and Porter (1985) have explained these as activities involved in informing potential customers about the product, persuading them to buy and enabling them to do so; including advertising, promotion, market research and dealer distributor support. The fifth primary activity is service activities; they are involved in the provision of services to buyers offered as part of the purchase agreement, including installation, spare parts delivery, maintenance and repair technical assistance, buyers' enquiries and complaints (Johnson & Scholes, 2002; Lysons& Farrington, 2006; Pearce & Robinson, 1997 and Porter, 1985). Therefore these activities are required to keep the product or service working effectively for the buyer, after it is sold and delivered.

In support of the primary activities of the value chain, Porter (1985) also identified support activities. These are procurement, technology development, human resource management and infrastructure. These of course feed into each stage of the primary activities of the value chain.

Johnson and Scholes, (2002); Lysons and Farrington (2006); Pearce and Robinson (1997) and Porter (1985) gives a description to each of them. Procurement refers to all activities involved in acquiring resource inputs to the primary activities, including the purchase of fuel, energy, raw materials, components, sub-assemblies, merchandise and consumable items from external vendors. Technology development is the second activity; every value activity embodies technology, be it know-how, procedures, or technology embodied in process equipment. Human resource management (HRM) which is the third activity is involved in the recruiting, hiring, training, development and compensation of all types of personnel; labour relations activities, development of knowledge-based skills. As clarified by Porter (1985), HRM supports both individual primary and support activities and the entire value chain. A firm's infrastructure is the fourth support activity and it consists of a number of activities, costs and assets relating to general management, planning, finance, accounting, legal and regulatory affairs safety and security and quality management. Porter (1985) noted that infrastructure, unlike other support activities, usually supports the entire chain and not individual activities.

## **2.6 Indicators of Competitive Advantage**

Strategic management is all about gaining and maintaining competitive advantage. This term can be defined as anything that a firm does especially well compared to rival firms. There are several indicators of competitive advantage which include: Research and Development (R&D) which involves investigative activities that a business chooses to conduct in order to make a discovery that either leads to the development of new products or procedures or to improve existing products or procedures; Strategic focus, which comes about from marrying distinctive competencies and purpose to form a superior value proposition (Pearce & Robinson 1997).

This creates an internal environment that has the confidence and implicit support to continue to perfect and develop that focus through creating stronger competencies; Innovation, which involves the technological abilities such as abilities of importing, learning and producing technology together with efficient industrial capacity. It is inventiveness put into profitable practice. In an evolving economy, the business organization must innovate at a rate that meets or exceeds its environment in order to sustain a competitive advantage; Firm's core competencies, which are the combination of pooled knowledge and technical capacities that allow a business to be competitive in an industry. Core competency allows a firm to expand into new end markets as well as provide significant benefits to its customers, whereas it's hard for competitors to replicate (Wernerfelt 1984).

## **2.7 Empirical Studies and Knowledge Gaps**

Among other studies carried out in the area of value chain are Ouma (2009) who made an investigation into the application of Porter's value chain at the KRA (Kenya Revenue Authority). The discourse of competitive advantage is surprisingly ambiguous as to whether it applies to firms or products. According to Porter, 'a firm differentiates itself from its competitors when it provides something unique that is valuable to buyers beyond simply offering a low price' (Porter, 1985). Hunt (2000) makes a similar distinction, using the term comparative advantage to describe advantage in firm resources and competitive advantage to describe market position. In general, however, competitive advantage is used in ways that blur the distinction between competition between products and between firms.

Mugo (2011) carried out a survey on business process outsourcing strategy and competitive advantage in Commercial banks of Kenya. Boateng (2011) the researcher carried out a survey on value chain analysis of Procter and Gamble. From the studies carried out, it appears that value chain activities and how they are performed do create value to customers who are the main focus of any business. However, these studies made earlier on the value chain may not be expected to provide insight on whether the adoption of either of the value chain models does indeed enhance competitive advantage in an organisation.

## **2.8 Summary**

The chapter discusses the literature material on the value chain model; key emphasis areas described are industrial/organization theory, resource-based view theory, and value chain in organization. Under value chain, deep discussions on Porter's and Hines' value chain models are elaborated. The chapter further describes the metrics for competitive advantage and analysis of the knowledge gap in the empirical studies. The next chapter discusses the methodology to be applied in the data collection from the respondents.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter discusses the research methodology that was used in this study and provides a general framework for this research. This chapter outlines the methods, tools and sources of research data and the target groups in order to attain the objectives of the study. It further discusses how the data was processed and tools that were used in data analysis and presentation.

#### **3.2 Research Design**

This research adopted a descriptive case study design intended to establish the extent to which KQ has adopted the Porter's value chain model in the determination to gear itself back to profitability, outlined the challenges associated with its current adoption of the model, identified the benefits of appropriate adoption of the model to separate useful value-creating activities from the wasteful activities, as compared to the Hine's model that is currently being applied in majority of its organizational functions.

According to Cooper and Schindler (2003), a study concerned with finding out who, which, when, where, and how of a phenomenon is a descriptive design. This study was therefore mapped on a similar concern. The case study method was chosen because it gives an in-depth understanding of the behaviour pattern of firms. By using case studies, researchers are also able to collect data and explain phenomenon more exhaustively. Previous studies that have adopted this design successfully include: Marete (2010) and Karoney (2008).



### **3.3 Data Collection**

The data was collected using an interview guide (Appendix I). The targeted respondents were sectional heads in operations, marketing, commercial, customer relations and human resources departments. The interview guide was divided into three parts: Part I had questions aimed at establishing the extent to which Porter's value chain model has been adopted by KQ in respect to the value chain parameters that constitute the model which are: business processes, structure and direction, primary activities and secondary activities.

Part II had questions focusing on the challenges associated with the current adoption of the Porter's value chain model and also identify the benefits of appropriate adoption of the model as compared to the Hines's model that is currently being applied in majority of its organizational functions, and lastly get feedback on incorporating outsourcing to help KQ focus and perform well in their core competencies, and also reduce labour costs. Finally, part III contained questions about the general information of the respondent.

### **3.4 Data analysis**

Analysis of data is a process of inspecting, cleaning, transforming, and modeling data with the goal of discovering useful information, suggesting conclusions, and supporting decision-making. This section discussed the techniques that were used to analyse data. Before processing the responses, data preparation was done on the completed interviews by editing, coding, entering and cleaning the data. The data collected from all the sections of the interview guide was analysed using content analysis.

The content analysis is suitable for analysing this type of qualitative data, because it helps in obtaining detailed and in-depth information from the qualitative data that will be received. Babbie (2001) noted that the content analysis measures the semantic content or the what aspect of a message. Its breadth makes it a flexible and wide-ranging tool that may be used as a stand-alone methodology or as a problem specific technique.

### **3.5 Summary**

The chapter discusses the research design and data collection technique to be used in this study. Thematic Content Analysis (TCA) will be used in analyzing the data collected in the next chapter. The findings from the analyzed data are discussed in the next chapter.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This chapter sets out to analyze and discuss the primary data that was gathered from respondents. It presents a summary of the results and findings of the study in relation to the research objectives. The chapter is divided into three parts according to the objectives that guided the study. The first part focused on the extent to which Kenya Airways has adopted the Porter's value chain model; the second part has focused on the challenges associated with the adoption of the Porter's value chain model; and the third part is on the benefits of adopting the model as compared to the hybrid with Hines's model initially adopted by Kenya Airways.

#### **4.2 Extent of Adoption of the Porter's Chain Model by Kenya Airways**

To determine the extent to which Kenya Airways has adopted the Porter's value chain model 'push' strategy in their operation, the respondents were asked to describe the practices adopted by Kenya Airways in support of the 'push' strategy according to Porter's value chain parameters. The findings on the overall issues indicated that the Porter's value chain model has been implemented in tentative try and see manner in the high volume low skilled areas of the organization. Its implementation has faced varied challenges like careless attitude of outsourcing that has affected some core functional areas, misunderstanding the intended intention by some of the staff, and the high resistance from the union. Nevertheless the finding indicates that push strategy has been useful in the low skilled high turnover sections because it has reduced the overload (overhead) costs by providing a one off payment cost structure, and the burden of

resourcing is shifted to the provider. The push strategy allows for faster up-scaling or downscaling of the resources based on the business requirement. The findings also indicate that ‘push’ strategy practices have been applied in marketing and customer service. These programs are; KQ hot Deals, CUSS self-service check-in facility, Mobile phone check-in application, self-service baggage drop, Brand Ambassador, commission to travel agent ticket sales, and modernization of fleets.

#### **4.2.1 Structure and Direction**

From the findings, Kenya Airways has put measures in place to revert back to profitability, the respondents cited structural approach to enhance customer service and reduce cost. Key areas of these approaches are: Cost reduction involving closure of non-performing routes, selling old aircrafts, reduction of flight frequencies to given routes, fuel hedging, up-selling of the guests - upgrading of guests from economy to business class at a fee, sale of lounge space to other airlines, monitoring traveling trends, and customer retention programs.

Some of the respondents are concerned that in some cases the structures in place do not support the Porter’s value chain model, which is driven by profitability. For instance the respondents stated that various projects proposed to enhance cost cutting do not pick up well because of the bureaucratic decision making and the sluggish implementation process. The findings also indicate that there is a very long communication channel for sharing the feedback on the progress of very initiative, making monitoring and evaluation difficult. This makes these ideas die off within the communication path. Example of such idea is the proposal to reduce plastic waste for blanket wrapping by the cabin crew, but at the point of carrying out this study the project has not even been initiated.

#### **4.2.2 Primary Activities**

The responses indicate that some of the primary activities that Kenya Airways has practiced in support of the 'push strategy' include: Guest handling both on ground and onboard. The push strategy is present in the guest handling functional areas through outsourced employees from Career Development Ltd. Not all employees are outsourced as there are also permanent employees in both the ground and in-flight functional areas thus creating a hybrid of human resource.

The respondents cited initiatives like ensuring on time departures, improved IFE (In-flight Entertainment), mapped processes championed by (CSD) Common Service Delivery, CUSS self-service check-in facility, mobile apps check-in, and improved cabin grooming standards as some of the practices aimed at ensuring effectiveness and efficiency in handling guests both on ground and onboard. Some of the respondents noted that the guest handling on the ground still needs some improvement as there is inconsistency in service delivery. Silo approach in handling guest centric functions shows lack of synergy, poor process mapping and no clear guideline of handling staff misconducts has deterred guest handling on the ground. Though the respondents goes further to cite the construction of the new Terminal Building 1A and process review like the ex-bay process of having sales office at check in will go a long in improving ground handling efficiency and create a greater synergy between on ground and onboard guest handling.

Baggage and Cargo handling has seen improvement in effectiveness and efficiency to a large extent. From the findings, it is indicated that introduction of baggage management system (BMS) has enhance effective reconciliation of the baggage and the process review at cargo operation

has help improve cargo up selling and shortened the acceptance process. There has also been strategic partnership with other cargo airlines to improve the global appearance of the Kenya Airways cargo, courier and mailing services. Some of these partnerships are with Qatar airline, KLM, MartineAir, Saudia Cargo, Atlas Cargo just to mention a few.

The respondents also indicated that application of Porter's value chain model in the Baggage and Cargo handling function has seen the employment of more outsourced staff from Tradewinds Limited, because these role requires high volume, but low skilled manpower hence reduction in labor cost and a better up-scaling and down-scaling of the resources depending on the business requirement. The respondents indicated that the Kenya Airways core competence is guest and cargo transportation from Africa to the rest of the world and from the world to Africa.

#### **4.2.3 Secondary Activities**

Some of the secondary activities that Kenya Airways has practiced in support of the Porter's strategy according to the responses include: Finance department that is very integral in the support of Porter's value chain to drive Kenya Airways back to profitability by enforcing prudent financial decision across the various functions of the business, transparency in financial expenditure like the purchase and leasing of the aircrafts. Other pivotal role is enforcing transparency in procurement by ensuring fair and competitive prices from the bidders. From the respondents it's indicated that the finance department has performed dismally in supporting Porter's value chain model to gear Kenya Airways back to profitability.

The findings indicate that the finance department has not given key priority to the financing of the primary activities that are customer facing, but have given priority to financing non-core functions. For the finance team would rather approve millions of shillings for the purchase of the office equipment because it was budgeted for in the cost center but will blatantly turn down request to finance impromptu customer promotion expo because it was not planned for in the fiscal year. This has not supported the business well.

In addition, the finance teams have not offered proper advisory to other department on what their expenses should be, such as fuel hedging. They could not project and extrapolate to provide prudent advised on the trends of fuel prices before the company could settle on such an arrangement. They the procurement section under finance department has also not sort to advise the company on the local suppliers that can provide cheaper best quality products and services to the company as opposed to the current arrangement in which most of the services are imported. The respondents also indicated that the department has not been aggressive enough to identify bad cost and the assets that are not working for the company books of accounts so that necessary actions can be taken.

Human Resource department as indicated by the respondent should offered vital secondary activity towards the realization of Porter's model in Kenya Airways. They should ensure the availability of competent human resource in both the primary and the secondary function to ensure delivery of value and delightful customer experience. They should promptly address employees concerns, grievances, and complaints. They should also ensure transparency in employees' career progression, succession planning, talent management, and employee retention.

The respondents indicated that the human resource department is not effectively assisting Kenya Airways return to profitability because they have failed to address their key responsibilities cited above. They have been faced with myriad of Union related issues like the withdrawal of goodwill by the pilots, unfulfilled collective bargain agreement and return to work formula. These have destabilized the staff productivity and morale.

From the findings, the respondent indicated that Information Systems department has contributed both positively and negatively towards the support of Porter's value chain model. In the positive aspect, Information System has champion automation of guest and customer handling process that has gone along in giving customers delightful experience through on time boarding, baggage handling, hotel services, and customer feedback management. Respondents also indicated that Information System has taken cost reduction initiative through outsourcing of high volume medium skill roles like I.T support, leasing of IT equipment as opposed to one off buying hence lessening the burden on the capital expenditure. On the contrary, the respondents were concerned with the high cost of offshore systems that I.S tenders for at the expense of in-house solutions from their development team. They stated that there are too many stand-alone systems because of poor integration capabilities. They cited these as the hindrance to I.S achieving their strategy in support of the Porter's value chain model.

Kenya Airways views its role as GHA (Ground Handling Agent) for customer airlines as its other core secondary activity. The respondents indicated that the Kenya Airways uses its GSE (Ground Support Equipment) to offer ramp support to customer airlines, and also the passenger services staff to offer passenger services to their customer airlines guests. These they achieve by



taking the customers through the normal sky team alliance passenger handling process. The respondents further indicated other secondary activities supporting revenue generation in Kenya Airways as Pride center training facility that is hired by other companies at a fee, and the state of art lounges that guest from other airlines are allowed to access the services being offered.

In conclusion, the findings indicate that of the four values chain parameters (business process, structure & direction, primary activities, and secondary activities) it is the structure and direction that needs urgent improvement. Because without this there will be no clear road map for achieving the goals, no monitoring and evaluation of the progress, and nil proper performance reviews. For instance a scenario was cited by the respondents where there is no synergy between the ground and onboard operations because of silo approach in process handling.

### **4.3 Challenges Associated with the Adoption of Porter's Value Chain Model**

Since Kenya Airways adopted the Porter's value chain model two years ago. The adoption process has been faced with a number of challenges. The main challenges indicated by the respondents include: Having full time staff as hybrid i.e. some outsourced while others permanent in the core competency areas makes the outsource staff feel different treatment because they do the same job, but enjoy different pay and benefits. This leads to high turn-over of the outsourced staff in search of greener pastures. This means Kenya airways is required to keep training staff to adopt to the new strategy; Periodically the outsource staff in ground services, flight operations, and Information Systems department tend to have higher turnover when they feel strained with low pay, nil personal development as opposed to the colleagues on permanent. The findings indicate that this high staff turnover affects the employees' personal

development and productivity in achieving the overall strategy in implementing the ‘push’ value chain model.

#### **4.4 Benefits of Adopting the Porter’s Value Chain Model over the Hines’s Model**

Since Kenya Airways adopted the Porter’s value chain model (‘push strategy’) to deliver its core competencies in transporting passenger and cargo from Africa to the world and from the world to Africa. The responses indicate that there are major benefits associated with the adoption of this strategy such as: Reduction in cost realized by outsourcing of non-core functions and leasing of some IT equipment as opposed to buying. Secondly, the ‘push’ strategy has solved the problem of human resources management for the high turnover low skilled manpower because this is now done by those companies who are specialized in recruitment, training and competence assessment. Outsourcing of human resource has eased up-scaling or downscaling of the manpower depending on the business requirement. This has been supported by the fact that outsourcing has become an emerging HR strategy in Kenya, hence easily adoptable at any workplace. Lastly, the Porter’s value chain model is geared towards increasing profitability by reducing cost, an objective that cannot be met while operating under the Hines’s ‘pull strategy’.

Initially, Kenya Airways adopted the Hine’s value chain model (‘pull strategy’) in carrying out its operations. However two years ago, Kenya Airways found the need to adopt Porter’s value chain model (‘push strategy’) because of the following drawbacks of the ‘pull strategy’ as revealed by the findings of this study. The pull strategy results in a rigorous recruitment process and the separation of overhead costs increase, hence becomes a liability to a company. For instance as cited by the respondents, the company had to part with over Ksh. 600 million during the year 2012 retrenchment, that is how expensive it is to downsize under the Hines’s model, as

opposed to Porter's model where the responsibility lies with the service provider (the outsourcing company).

On the other hand, Hines's value chain model does not allow for diversion of the company's resources to support core functions, hence fewer resources are available for guest centric projects to support increase in profitability. Although Hines's model seems appropriate for highly skilled and core competence's resources, it may not be a guarantee that the company will get its returns from the immense training and pay rewards invested on the employees.

#### **4.5 Summary**

The data collected is analyzed by thematic content analysis. The results from the three core study areas i.e. structure and direction, primary and secondary activities are discussed. The challenges of adopting Porter's model are also discussed. The analysis of the responses on the benefits and draw backs on the adoption of Porter's value chain model are also discussed. The next chapter discusses the findings in this chapter in details, draws conclusion and recommendation for future study.

## **CHAPTER FIVE**

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

#### **5.1 Introduction**

The content of this chapter have been divided into summary of the findings, conclusion, recommendations, limitation, suggestions for future research, implication of the study and the summary of the chapter. To address the study's objectives, this chapter discusses the findings based on the analysis of the data in chapter four, and in addition to proposing possible recommendations and conclusion about the study.

#### **5.2 Summary**

This section provides a summary of the major findings of the study. As discussed under the research problem, this study sought to fill gaps in previous studies which entailed providing a deep analysis to the adoption of the Porter's value chain models by a given firm by establishing the extent to which the firm had adopted the value chain model, the challenges in its adoption and benefits associated with the adoption of a particular value chain model. By identifying and outlining gaps in previous study, this study departed from the previous studies by introducing the concept of practices relating to the value chain framework that differentiates the two major models referred to in this study, that is the Porter's and Hines's value chain models. It also explains the extent to which the organization has adopted Porter's value chain model in relation to the parameters such as business process, structure and direction, primary activities, and secondary activities.

For the business process parameter, the overall responses indicated that Kenya Airways practices in business execution supporting a 'push strategy' are: KQ Hot deals programs which encourages the customers to book flight and pay early so as they can enjoy up to 50% reduction in cost of fares; provision of CUSS System that enables faster check-in process because a customer does the check-in for him/herself at the mobile kiosks; mobile check-in allows customers to check-in from any internet enable smart devices at most two hours before their flight, and only present electronic boarding pass once the report to the airport. This has led to reduction in the length queues at the counter hence encouraging early or on time departures of such flights.

Kenya airways has also implemented self-service baggage drop facility where the guest just leave the baggage and it's registered to the system then taken to the aircraft by the passenger support team. The guests only collect the baggage once they arrive at their destination. There has also been a program called 'Brand Ambassador', which aims at encouraging all the Kenya Airways staffs to promote the company's brand by recommending Kenya Airways airline to potential travellers at a commission. For every guest brought by the staff, they stand a chance to get a reward. The respondents indicated that since the launch of the program one year ago, it has raised close to one billion shillings, which is a remarkable achievement.

Other practises supporting the 'push strategy' are the incorporation of commission to the travel agents sales. Every excess sale they make on top of the standard agreed target earns them a commission. This arrangement is geared towards enabling the travel agents to be more aggressive in increasing Kenya Airways ticket sales, leading to a larger revenue gain. Last but not least, the ambitious 'Project Mawingu' that was aimed at modernising and increasing the

Kenya Airways fleets to almost double the current number by the year 2020 also focused as indicated by the respondents towards supporting the 'push strategy' by increasing the passenger numbers, ticket sell and the overall revenue, assuming that the passengers numbers increased proportionately to the increased seat capability and improved state-of-art IFE (In-flight Entertainment).

The structure and direction of the Porter's value chain model ought to have only the primary activities pointing to the customer. In this case the definition of the service value and volume starts from the key parameters to the customer so that the service quality is defined according to the deliverable and skills of the staff in core competencies (primary activities) areas as they are considered to be the customer facing functions under the Porter's model. According to the findings these roles do have hybrid structure because some are outsourced while others are fully permanent staff. This as the respondents' state has created conflict with high resource turnover.

The organization is working on a framework ensure Porter's model is fully implemented in this areas to help realise the best and utmost customer service delivery. The respondents also indicated that there are structures in place to help implement Porter's model such as cost reduction strategies involving outsourcing roles in secondary activities, reducing the frequency of flight in non performing routes or closing the routes as well, leasing of IT equipment and infrastructure as opposed to buying . For example the adoption of internet cloud set up by the information systems department in delivery of key Oracle products like 'eloque', 'right-now' and 'sales cloud-fusion' hosted in the cloud are geared towards improving customer service and sales.

Responses have also shown that the primary activities practised by Kenya Airways in support of this strategy include: increased effectiveness and efficiency in handling guests both on ground and on-board; increased effectiveness and efficiency in handling guests' baggage and cargo, this has been realized by initiatives such as putting in place information systems to enhance baggage and cargo reconciliations. Kenya Airways has proven to have common service delivery (CSD) across their network. Lastly Kenya Airways has strived to have more and more focus in the improving their core competency activities according to the respondents, they are doing their best to have delightful service in taking passengers and cargo from Africa to the world and bring passengers and cargo from the world to Africa whilst consistently delighting the guests and inspiring their people. This is the only way they will create competitive advantage to bounce back in the bouncy airline business environment.

The respondents indicated that Kenya Airways also practices some secondary activities in support of the push strategy like: finance department providing financial advisory to the primary activities in the business, enabling them give more priority to the projects and activities that have most impact on the customer like enhancing the quality of service they get, and delighting their experience; human resource department has supported the primary activities by ensuring the right resources with right skills, training and experience are put in customer facing areas, they also support the strategy by ensuring staff issues like collective bargain agreements, staff development plans, succession planning, satisfaction and training are enhanced to enable them deliver the best value of service to the guests. Kenya Airways is also keen to ensure staff issues are resolved promptly to help them focus on what is important to help them realize their strategy.

For example labour relation issues with KALPA (Kenya Airline Pilots Association) the umbrella union body for pilots in Kenya has seen rough instances with Kenya Airways when they forcefully sent nine of their senior captains on early retirement. According to the respondents, the pilots union withdrew their goodwill and refused to work extra hours, consequently affecting Kenya Airways operations and scheduled flights. From the findings, in the cases of withdrawal of goodwill, pilots refuse to extend their working hours once their duty hours have exceeded, and they are within the legal limit to extend. This will in turn lead to cancellation of flights, providing the disrupted passengers with hotel accommodation, thus causing additional costs to the company.

Lastly, the information systems department has supported the primary activity by ensuring systems are availability in right quality all time to help support the guests, baggage and cargo operations. From the respondents, they have also strived to ensure Kenya Airways information is secure from threats like ethical hackers, man-in-the middle attacks, and denial of service. They have incorporated proactive measures to avert such threats.

The process of adopting 'push' strategy at Kenya Airways was commenced two years ago. Some of the challenges associated with its adoption include: The hybrid work setup where some staff are outsourced while others are permanent staff enjoying different pay and benefits has created high resource turnover, this implies that Kenya Airways has to keep training new staff on the adopted strategy; the structure and direction currently in the company does not fully support the strategy as per the respondents. It is not lean and transparent, bureaucratic and silos decision making still present. This has slowed down the momentum in adopting the strategy in some



sections of the operation. The respondents also indicated that the secondary activities have not lived to their promise in offering utmost support to the primary activities. For example the finance department team are not sensitive to financing the customer facing projects. They have failed to analyse the opportunity cost in financing physical infrastructure at the expense of unbudgeted for customer promotion and retention programs. They would rather approve millions of money in purchasing office furniture as opposed to few millions in doing customer promotion and retention projects.

The respondents also indicated that the human resources has not promptly and diligently handle labour related issues, they have in many instances made closed fist decision that have proved to be detrimental to the organization operation, making the realization of the strategy difficult. Lastly, the respondents indicated that the information systems have not done much to help realize the strategy in cost cutting. They have not been more aggressive to build more in-house systems to provide solutions to the company as opposed to immediate rush to get offshore vendors to supply the systems which are expensive. Their local solutions would go along in saving the company a lot of money.

The information system department also have many stand-alone systems, the system integration has been poor, this has seen the company pay so much for many individual systems, that can be integrated so that many functionalities at best quality and value are realized from just a few system making the company save high and greater amount of shillings. In this approach the information system will show their agility in support of the Porter's strategy.

### **5.3 Conclusion**

As indicated in chapter one, the airline industry is a very sensitive venture because it is highly impacted by the global economy. This has made even the initially regarded major players in the industry to re-examine their strategy so has to have a stable foundation of competitive advantage in order to remain relevant. They have been faced with immediate need to manage cost and generate more revenue to remain competitive in the today dynamic market place. These measures will enable the airline cushion itself from the adverse effects of situations that may be beyond their control like terrorist threats, global warming, economic depression, fluctuation in global oil prices, and adverse weather condition. It is therefore imperative for the airline players to change their mode of operations to retain and attract more guests. This cannot be achieved when the status quo remain unchanged, but with robust and agile approach to the ever dynamic customer needs, and by re-examination of the firm's value chain. A firm's value chain and the way it performs its individual activities are a reflection of its history, its strategy, its approach to implementing its strategy and the underlying economies of the activities themselves (Porter 1985).

Conclusion drawn from the study of the application of Porter's value chain model by Kenya Airways may point at the key areas that require urgent management attention because the process of adopting the Porter's value chain ('push' strategy) is still on-going.

Results of the study suggest that overall adoption of the 'push' strategy is to a moderate extent. The concern of the respondents is that if the structure and direction were fully aligned to the strategy, it would propel Kenya Airways back to profitability. This is because there is already a

partial implementation of Porter's model in both primary and secondary activities as depicted by this study. From the findings, we see full implementation of the strategy in some department such as Information System department. They have done this by leasing of IT Infrastructure and equipment as opposed to buying that is capital intensive, they have also outsourced most of the medium skilled roles to providers in bid to cut on the skyrocketing labour cost. In the primary activities according to the respondents, we have a hybrid scenario, where the customer facing staff consists of both permanent and outsourced staff. This is a conflict of the Porter's model that proposes that the core functional areas, in the case of Kenya Airways are customer facing roles, must be fully engaged and given maximum investment regardless of the skill level required. We can therefore say that it is only in the ground services, flight operations, safety and security, and the information system departments that have a mixed breed of what the Porter's model should portray. The remaining departments which are either under primary or secondary activities still operate using the 'pull' strategy (Hines' value chain model).

The two thirds portions of all the departments have adopted the 'push' strategy according to the respondents. The respondents agreed that Kenya Airways has implemented the strategy's all important parameters. Results indicated that the system of business process clearly indicates that it's a push system as shown by the practices. However in this parameter the researcher was concerned about the extent of process mapping to eliminate silos decision making and enhance synergy between the different operations ingredients.

In regards to the structure and direction, the findings suggest that Kenya Airways has implemented some measures of ensuring that only primary activities that impact directly on customer are made to be more capital intensive, while those activities supporting the primary activities are given less resources. Primary activities have been monitored to ensure cost cutting and revenue generation initiatives works well for the company. However, in this parameter as revealed by the study some components of it has not fully supported the Porter's model, making the respondents to cite it as the one of the four value chain parameters that urgently requires improvement. The respondents indicate that silos decision making and bureaucracy in the part of structure and direction has hindered the implementation of Porter's value chain model.

The primary activities supporting the 'push' strategy have also been adopted by Kenya Airways however the study revealed that more improvement is still needed from the structure and direction to enable these activities better support the strategy. The respondents indicated that though brighter programs have been initiated to help improve efficiency and effectiveness in guest having on ground and on-board, baggage and cargo handling, and delivery of core competence. Lack of support from structure and direction as evidenced by silos, unsought and bureaucratic decision making has derailed the process, hence the need for urgent improvement on the part of structure and direction parameters.

The secondary activities supporting the 'push' strategy have been adopted effectively by Kenya Airways. However, the study also shown that the contributions of these activities have not lived up their promise. For instance, the respondent cited that finance department have not treated with priority impromptu financial requirement to support primary activities that are more customers

facing that might have not been budgeted for in the given fiscal year. They have not offered the best financial advisory to evaluate the opportunity cost of diverting finances meant for other project like facility development to product promotions and customer retention programs. They have failed to check the underlying trade-off on the business long term perspective. Choosing to remain stiff necked to the dynamism in the expenditure environment.

The study has also shown that the human resources department has not been so proactive in resolving labour related issues leading to derailment in the staff morale and productivity. Lastly, the study indicated that the information system department has not been assertive in helping the company save cost by building in-house system to relive the company burden of sourcing off-shore vendors to supply the system. They have also failed to ensure utmost system integration to limit the number of standalone systems that are costing the company a lot of money in annual licence renewal charges. The responses also shown that despite the fact that the 'push' strategy has not been adopted fully in the organization, it was the preferred strategy because of its focus on cost reduction. However, due to the hybrid of outsourced and permanent employees in same functional areas, this does not enhance team work, unity and patriotism among the staff, thus impacting on service delivery; a core function of Kenya Airways.

Lastly, the respondents also pointed out that the effectiveness of this preferred strategy 'push' will be enhanced by having all the players in the process playing their roles effectively i.e. the value chain model parameters ( business processes, structure and direction, primary activities, and secondary activities). However, according to Pearce and Robinson (1997) indicate that value chain analysis is based on the assumption that a business's basic purpose is to create value for

users of its products or services. However, airline operation being different from the manufacturing sector in terms of the level of customization of services provided, the degree of separation between primary and secondary activities, and the uncertainty underlies the basic process. As such, the airline operation stakeholders are unable to predict whether the synergy between primary and secondary activities will indeed 'push' their products to the customer.

The PESTEL factors affect the operations of an airline business hence the strategy cannot work in isolation. For example case scenario pointed by the respondents is the 'push' strategy initiative to modernize the fleets, increase the fleet numbers and improve the IFE as a strategy to enhance the KQ's brand thus boost increase passenger numbers. The strategy flopped because other PESTEL factors such as terrorist threat in Kenya, Euro economic slump, fluctuating fuel prices and the Ebola outbreak in Western Africa countries were not factored in the ambitious strategy, and instead of the passenger numbers increasing, there was a tremendous plunge in their number leading to the subsequent losses the company has found itself in.

The 'push' strategy is still bound to face challenges because the airline strategy management team have no control to predict the occurrence of the PESTEL factors. But on this what they needed to have done which was not earlier put in the initial 'push' strategy is the countermeasures. They must have identified the threats that may face their strategies and the back out plans to help mitigate them as they strive to reach the final goal of returning Kenya Airways back to profitability. This means Kenya Airways should expect the 'push' to face challenges because according to Johnson and Scholes (2002), political, economic, social, technological and ecological factors are the external environment that presents the organization

with opportunities, threats and constraints. However, according to Burnes (2000) contends that due to political, economic, social and technological changes, history of organizations has been that of change and upheaval, since the industrial age. Because of the pace of change and uncertainty, such change vary from organization to organization however, no matter what level of turbulence is, what matters is the ability of the organization to cope with the environmental constraints, challenges and threats.

#### **5.4 Recommendations**

This study has revealed the extent to which Kenya Airways has adopted the Porter's value chain model ('push' strategy) in execution of its core competencies. As the study focused on the various parameters of the value chain model; business process, structure and direction, primary activities, and secondary activities; from the responses the practices in relation to these parameters supporting the 'push' strategy have been effected but the analysis of the specific practices under each parameter revealed a number of possible value chain aspects that may be improved.

First and foremost, in respect to the structure and direction, the findings of the study suggest that there have been measures taken into account to gear Kenya Airways back to profitability by reducing the cost of expenditure, whilst increasing the passenger numbers. This measures have also direct towards exploring revenue generation from KQ's core functional areas like cargo and passenger handling of customer airlines, selling of lounges services to other airlines, and using our Pride Centre training facility by other companies.

The researcher recommends that setting out this structures and direction need to proactively support 'push' strategy. Silos and bureaucracy in decision making must be eliminated for Kenya Airways to gain from this strategy. The study further proposes that constraints from PESTEL factors must be factored in when setting up the strategies; this will enhance assertiveness in laying out the countermeasures to react to the adverse effects of the PESTEL that can make an organization lose focus in the overall strategy when the threats and constraints come to play. Johnson and Scholes (2002), affirms that organizations may not have control to the occurrence of these PESTEL constraints and threats, but their preparedness and factoring them in their strategy has proved prudent in the way they react, and the overall effect they have in the organization approach to their strategy.

Secondly, in respect to the primary activities the findings indicate that Kenya Airways' role in achieving delightful guest experience by ensuring delivery of consistent value and quality service to guests, whether on-board, ground, courier, mails or cargo is limited because of the dependent of the structure and direction, and the secondary activities. The research recommends that in order for the 'push' strategy to be effective as suggested from the findings, then the airline ought not to outsource customer facing functional areas; in this case in-flight and customer service agents so as to deliver consistent and exemplary service.

Lastly, in respect to the secondary activities, the researcher recommends that Kenya Airways management should highly consider the option of outsourcing those support functions that can be outsourced without compromising the airline's operations, and the business at large. The management should also support initiatives meant to reduce cost such as leasing of IT



equipment. The researcher also challenges the management to ensure employee participation and empowerment in order to enhance service delivery such as my IDEA initiative which allows staff to share with the management innovative ways they think can help increase revenue or assist in cost saving. According to Aswathappa (2008), an important reason for encouraging greater employee participation in decision making is that it can lead to improved efficiency and effectiveness in delivering of goods and services to the customers, it enhances the ability of the employees to make important operational decisions, it leads to increased employee commitment and motivation and enhanced delivery of quality service to the customer.

### **5.5 Limitation of the Study**

Like many studies, this study results were interpreted in light of certain limitations. A key limitation relates to the scope of the study. The study was limited to one airline and this may mean that the study results may not be generalized to other airlines like Qatar Airline which is a state owned airline enjoying free fuel supply and tax exemption.

### **5.6 Suggestions for Further Research**

Further research could be carried out in other airlines that are not limited by the environment that Kenya Airways operates in, with the aim of determining the cost reduction and revenues generation processes. For instance it may be informative to conduct a wider survey of the application of 'push strategy' in up to three different airlines facing different PESTEL threats and constraints. Such a study will give a wider approach and analysis on the adoption of the Porter's value chain model and its effectiveness in gearing an organization towards profitability.

### **5.7 Implication of the study**

The study will assist Kenya Airways management match their organization strategy to ensure direct impact on profitability initiatives. This will be realized from the cost reduction programs realized by outsourcing the non-core functions in the organization. An improvement in service delivery and customer satisfaction will be realized when the customer facing functions are empowered with the right skill and rewards, thus lead to increased revenue. With expected increase in revenue, versus reduction in cost, we will expect turnaround to profitability.

### **5.8 Summary**

In conclusion, adopting Porter's value chain model in Kenya Airways will go a long in improving the operational productivity, reduce cost, enhanced customer experience, and take the company to a turnaround drive to profitability. The creation of value chain by adopting this model it will ensure creation of a unique service model to enable Kenya Airways gain competitive advantage, leading to an increase in sales, hence making it possible to return to profitability.

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## APPENDICES

### APPENDIX I: Letter of Introduction

MILLICENT KARANJA  
UNIVERSITY OF NAIROBI  
DEPARTMENT OF BUSINESS ADMINISTRATION  
P.O BOX 18882 -00100, NAIROBI

Dear Respondent,

#### **RE: REQUEST FOR RESEARCH DATA**

I am a post graduate student at the University of Nairobi, Department of Business Administration in partial fulfillment of the requirements for the award of the degree of Master of Business Administration (MBA).

I am undertaking a research project entitled; “*Application of Value Chain Framework to enhance competitive advantage in Kenya Airways Ltd.*” I therefore kindly request you to assist me in answering the following questions in the attached Interview guide.

The information provided will be used exclusively for the purpose of this research and will be treated in strict confidence.

Your co-operation will be highly appreciated.

Yours faithfully,

MILLICENT KARANJA  
MBA STUDENT  
UNIVERSITY OF NAIROBI

## **APPENDIX II: Interview Guide**

This interview guide is designed to assess the application of the Porter's value chain model by the Kenya Airways Ltd.

### **OVERALL ISSUES**

- I. To what extent has KQ adopted the Porter's value chain model ('push' strategy?)
- II. What are the challenges associated with the adoption of the 'push' strategy?
- III. Considering that KQ adopted the push strategy two years ago how is this strategy more beneficial than the pull strategy? What are the draw backs of using the 'pull' strategy and which reasons triggered KQ to introduce the 'push' strategy?

### **Part I**

1. Are you familiar with the 'push' strategy that KQ is using?
2. If Yes in (1) above, which practices have KQ adopted in support of the 'push' strategy according to the following value chain parameters?

#### **a) Structure and Direction**

- i) Are there measures undertaken by KQ to gear itself back to profitability?
- ii) Does KQ's structure support the strategies implemented?

#### **b) Primary Activities**

To what extent has KQ been involved in efficiency and effective handling of the following activities?

- i) Guest handling on ground and on board
- ii) Baggage and Cargo handling
- iii) What is KQ's core competence?

#### **c) Secondary Activities**

- i. Are you aware of the secondary activities in KQ?
- ii. How do you evaluate Finance department in supporting KQ towards profitability?
- iii How you view the HR department in supporting KQ towards profitability?
- iv How do you evaluate IS department in supporting KQ towards profitability?

3. Evaluating the four value chain parameters which parameter(s) (business processes, structure and direction, primary activities, secondary activities) do you think requires most improvement?

## **Part II**

4. (a) Considering that KQ adopted the ‘push’ strategy two years ago, are there challenges associated with adopting this strategy?

Yes / No

(b) If yes in (a) above please outline the challenges experienced so far?

5. (a) Since KQ adopts the ‘push’ strategy in some functional areas and maintains the ‘pull’ strategy in majority of its departments, are there benefits associated with the adoption of the ‘push’ strategy because it’s used more widely than the ‘pull’ strategy?

Yes / No

(b) If yes in (a) above, outline the benefits associated with the adoption of the ‘pull’ strategy?

6. What are the reasons that triggered KQ to introduce the ‘push’ strategy?

7. Are there future plans for the adoption of the ‘push’ strategy?

8. (a) In your own opinion do you think the right decision was made by adopting the ‘push’ strategy instead of continuing with the initial ‘pull’ strategy?

Yes / No

(b) If yes in (a) above, what are the draw backs of using the ‘pull’ strategy?

9. Which of the two strategies ‘Pull’ and ‘Push’ is geared towards profitability?

10. Comment about the effectiveness of this preferred strategy

## **Part III**

### **General Information of the Respondent**

11. Name (Optional) \_\_\_\_\_

12. Job Title \_\_\_\_\_

13. Department \_\_\_\_\_

14. How long have you been working for KQ?

Less than 2 Years ( )

2-5 Years ( )

Over 5 Years ( )



### APPENDIX III: Kenya Airways Fleet, As of January 2015

Kenya Airways Fleet							
Passenger Fleet							
Aircraft	In Service	Orders	Options	Passengers			Notes
				C	Y	Total	
Boeing 737-300	2	—	—	16	100	116	
Boeing 737-700	4	—	—	16	100	116	
Boeing 737-800	7	—	—	16	129	145	
Boeing 777-200ER	4	—	—	28	294	322	To be phased out by May 2015
Boeing 777-300ER	3	—	—	28	372	400	To be phased out by September 2015
Boeing 787-8	6	2	4	30	204	234	
Embraer 190	15	—	—	12	84	96	
Cargo Fleet							
Boeing 737-300F	2	—	—	N/A			
<b>Total</b>	<b>43</b>	<b>2</b>	<b>4</b>				

Source: www.kenya-airways.com. Retrieved 19 January 2015

**APPENDIX IV: Kenya Airways Financial Trend, As at Year Ending 31  
March 2015**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Turnover (KSh m)	27,461	30,984	42,234	52,804	58,792	60,471	71,829	70,743	85,836	107,897	98,860	106,009	110,000
Profits (EBT) (KSh m)	547	2,075	5,520	6,960	5,975	6,526	-5,664	2,671	5,002	2,146	-10,826	-4,861	-25,743
Number of employees	3,418	2,977	3,222	3,599	4,154	4,267	4,179	4,133	4,355	4,834	4,006	3,989	4,000
Number of passengers (m)	1.6	1.7	2	2.4	2.6	2.7	2.8	2.9	3.1	3.6	3.7	3.7	4.2
Passenger load factor (%)	68	70.2	75.4	74.2	73.6	70.4	70.8	66.5	69.2	71.7	68.7	65.6	63.6
Number of aircraft (at year end)	17	19	20	21	23	24	28	27	31	34	43	47	43

Source: Kenya Airways Annual Report and Financial Statements for the year ended 31 March 2015

**APPENDIX V: Kenya Airways Income Statement For The Year Ended 31  
March 2015**

<b>KENYA AIRWAYS LIMITED</b>		
<b>SUMMARY AUDITED GROUP RESULTS FOR THE YEAR ENDED 31 MARCH 2015</b>		
<b>SUMMARY CONSOLIDATED INCOME STATEMENT</b>		
	<b>31 Mar 2015</b>	<b>31 Mar 2014</b>
	<b>KShs M</b>	<b>KShs M</b>
<b>Revenue</b>	110,161	106,009
Direct costs	(76,059)	(75,268)
Fleet ownership costs	(25,932)	(12,490)
Overheads	(24,503)	(20,972)
	<b>(126,494)</b>	<b>(108,730)</b>
<b>Operating loss</b>	<b>(16,333)</b>	<b>(2,721)</b>
<b>Operating margin (%)</b>	<b>(14.8%)</b>	<b>(2.6%)</b>
Finance costs	(4,734)	(2,424)
Finance income	153	823
Realised (losses) gain on fuel derivatives	(1,676)	972
Unrealised losses on fuel derivatives	(5,776)	-
Other costs	(1,346)	(1,511)
<b>Loss before income tax</b>	<b>(29,712)</b>	<b>(4,861)</b>
Income tax credit	3,969	1,479
<b>Loss after tax</b>	<b>(25,743)</b>	<b>(3,382)</b>
<b>Net profit margin (%)</b>	<b>(23.4%)</b>	<b>(3.2%)</b>
<b>Loss per share (KShs)</b>	<b>(13.35)</b>	<b>(2.25)</b>

Source: Kenya Airways Annual Report and Financial Statements for the year ended 31 March 2015