A case study of kenya airways tourism essay

Environment, Air

Kenya Airways was formed as a result of the downfall of the East African Airways Corporation, which was in cooperation owned by the governments of Kenya, Uganda and Tanzania, which together constituted the East African Community (EAC), formed in 1967 as an economic union. As a consequence of the subside of the EAC in 1977 (due to ideological differences: Kenya pursued in essence a capitalist system, Tanzania a socialist system, and Uganda, under Idi Amin, had no economic direction at all; there were also the difficulties of the other governments doing business with Idi Amin, East African Airways Corporation was placed in receivership and its operations were liquidated on January 31, 1977. Following the breakup of the EAC, the Kenyan government embarked on plans to set up its own airline. On January 22, 1977, Kenya Airways was incorporated as a wholly owned government corporation and the flag carrier of the Republic of Kenya.

First chapter is about company background, mission, vision, goals, general strategies and SWOT analysis of the company. Second chapter is about organization structure, leadership and human resources management and rewards. Third chapter talks about management changes and how the transformation of Kenya Airways from a not viable state owned enterprise (SOE) to a very flourishing, lucrative African airline and its relationship with KLM-Royal Dutch Airlines. First, it analyzes the circumstances leading to the creation of Kenya Airways and then discusses the managerial and financial problems it encountered from the period it was set up until it was privatized. It also attempts to explain why and how Kenya Airways has been able to use privatization to avert liquidation. In this regard, it explores the benefits of privatization for the airline and the country as a whole and highlights lessons learned from this experience for the privatization process and strategies in Africa.

EAC East African Community

IFC International Financial Corporation

IOSA IATA Operational Safety Audit

HR Human Resources

HRM Human Resources Management

JKIA Jomo Kenyatta International Airport

KLM Koninklijke Luchtvaart Maatschappij (Royal Dutch Airlines)

Kes Kenyan Shillings

KQ Kenya Airways (IATA airline code)

SSA Sub Sahara Africa

SAA South African Airways

SOE State Owned Enterprises

UK United Kingdom

I NTRODUCTION

CHAPTOR ONE: COMPANY BACKGROUND

In 1977 Kenya Airways is established in February following the breakup of the East African Community and subsequent dissolution of the jointly-owned East African Airways. In 1986, the Government makes the first move towards privatization. The document for the first time, spells out the Government’s intention to divest from corporations which could be run better by the private sector. In 1991 a new board is appointed at Kenya Airways in April with a mandate to commercialize and prepare the airline for privatization. The year 1992 a policy paper on Public Enterprise Reform and Privatization setting out policy objectives is issued in July. The policy paper gives high priority to the privatization of Kenya Airways, where by year 1993/94, commercialization process produces the first profits. An IFC information memorandum is sent to 154 airlines in search of a ‘ strategic partner’ culminating in the eventual selection of KLM. This takes place in May 1995. An Initial Public Offer for shares is issued in March in 1996. Year 1997 delivery of the first of four new Boeing 737-300 aircraft dedicated to domestic and African regional services. Year 1999 Voted African Airline of the Year by African Aviation Magazine (UK based publication). Voted Best Regional Airline in Eastern Africa by Travel News (a Kenyan publication). In 2000 named African Airline of the Year for the second year running by African Aviation Magazine. Voted runner-up in the award for the Most Respected Company in East Africa by business leaders surveyed by PricewaterhouseCoopers and Nation Media Group. Year 2003 Kenya Airways acquires 49% shareholding in Precision Air, a Tanzanian carrier. In the year 2003 voted Best User of Information Technology in Kenya by the Computer Society of Kenya . Named African Airline of the Year for third year running by African Aviation Magazine. Year 2004 Kenya Airways scoops triple win as Best Domestic Airline 2003, Best Regional Airline 2002 and 2003 and Best In-flight Magazine 2002 and 2003 by Travel News and Lifestyle Magazine. Delivery of the first state-of-the-art Boeing 777 as part of the airline’s fleet expansion and the 6th Boeing 767 aircraft. In the year 2005 October 2005 – KQ achieves IOSA (IATA Operational Safety Audit) becoming the 1st carrier in sub-Saharan to get this rigorous safety certification. Kenya Airways voted East Africa ‘ s Most Respected Company. Kenya Airways launches new route to Lubumbashi, Democratic Republic of Congo in February. Delivery of a second new Boeing 777-200ER in April. Kenya Airways launches new route to Istanbul, Turkey in June. Delivery of a third new Boeing 777-200ER in June. Kenya Airways launches new route to Bamako, Mali and Dakar, Senegal in July, (Kenya airways website)

Year 2006 Kenya Airways voted East Africa’s Most Respected Company for the second year running. Kenya Airways wins the prestigious African Aviation Award awarded by the African Aviation Magazine in March. In January Kenya Airways opened a new ticketing office at the village market in Nairobi

Kenya Airways Limited (Kenya Airways) is the flag carrier airline of Kenya engaged in the operation of international and domestic air services for the carriage of passengers, freight and mail, and the provision of ancillary services. The company principal place of business is Nairobi. In addition to this, the company also provides ground handling services to other airlines and the handling of import and export cargo. As of 31, March 2010, the company operates domestic flights and flies to 44 destinations in Africa, Middle East, Asia and Europe. It had 27 aircrafts in operation, either owned or on operating leases during 2009-2010. The company is headquartered in Nairobi, Kenya. This comprehensive SWOT profile of Kenya Airways Limited provides you an in-depth strategic analysis of the company’s businesses and operations. The profile has been compiled by Global Data to bring to you a clear and an unbiased view of the company’s key strengths and weaknesses and the potential opportunities and threats. The profile helps you formulate strategies that augment your business by enabling you to understand your partners, customers and competitors better.

VISION

To consistently be a Safe & Profitable Airline that Guarantees World Class Service: The Pride of Africa.

MISSION

To maximize stakeholder value by constantly provides the highest level of customer satisfaction, upholding the highest level of safety and security and maximizing employee satisfaction whilst being committed to corporate and social responsibility.

CORE VALUES, PURPOSE AND GOALS

To uphold the highest safety standards, to satisfy our customers and to continuously improve the Quality of our Products and Services.

To contribute to the sustainable development of Africa

To achieve world class standards in service delivery, product quality and operational performance, to be the Airline of choice in Africa, to develop JKIA as a premier hub in Africa and to pursue a business model that will deliver consistent level of profitability. In summary our actions, our behavior and our attitude at work will be driven by safety, customer satisfaction and quality considerations.

GENERA STRATEGY

An important consistent trend about commercial aviation is that it is a fiercely competitive and highly volatile industry, in which fortunes shift continuously. As the drive towards a free, converging and global market gathers momentum, competition within the airline industry is expected to intensify. Increasingly open skies are likely to impact on yields, and extraordinary profits will increasingly be an exception.

Given this potentially turbulent environment, the key to survival in the industry lies in whether an airline is able to clearly anticipate the patterns of change coming, the underlying forces driving these changes, and above all the ability to align its strategies to respond to a changing business and aero-political environment.

With this in mind, Kenya Airways is committed to investing in the development of world-class information gathering capacity, analysis and interpretation so as to facilitate faster and correct business decision-making. This way, Kenya Airways hopes to enhance ability for rapid response to opportunities, threats and challenges in the market place.

In concrete terms, in the next 10 to 20 years, Kenya Airways aims to grow into a decidedly dominant carrier in Africa with notable presence in Asia, Europe and the Americas, while operating a modern fleet of 30 to 40 aircraft. Kenya Airways intends to forge strong partnerships and be a respected member of the global airline community.

SWOT ANALYSIS

It is the study of strengths, weaknesses, opportunities, and threats that are facing an organization (Mullins, 2007).

1. 5. 1 Strengths

These are positive aspects or distinctive attributes or competencies which provide a significant market advantage or upon which the organization can build for example, through the pursuit of diversification. These are characteristics or the organization such as present market position, size, structure, managerial expertise, physical and financial resources, staffing, image or reputation. KQ strengths lie in the following facts;

KQ is among Africa's largest and strongest airlines. Dominant in east and central Africa.

Strong Balance Sheet (Sep 30 2008) shows Kes 10bn in cash/liquid assets. Approx 20/- per share.

National airline thus an advantage in getting airport slots in bilateral agreements.

Better management vs government controlled firms.

KQ can survive 2 years of losses while smaller airlines will collapse.

Majority of the revenue is in US$, GBP and Euros.

Aircraft have high fixed costs but deployment is flexible.

Weaknesses

These are those negative aspects or deficiencies in the present competencies or resources of the organization, which limits its effectiveness of the organization.

Single hub Jomo Kenyatta International Airport (JKIA) thus exposure to local politics – see effect on KQ during Nov 08-Mar 09 election period.

Inefficient hub (JKIA) is controlled by the GoK) leading to inefficiencies.

Reliance on government controlled entities for Jet A1 fuel. KQ faces problems sourcing fuel in various countries including Kenya, Ghana, DRC, Zambia, etc.

Over-reliance on Europe for tourists. Credit crunch in Europe will hurt KQ.

Inflexible (high fixed-cost) aircraft.

Higher cost airline with larger, unionized and inflexible contingent of staff.

Opportunities

These are favorable conditions and usually arise from the nature of changes in the external environments. For KQ, these include

Africa, especially Sub-Saharan Africa (SSA), has the lowest airline penetration.

Inefficient government owned/controlled carriers (e. g. Air Tanzania, Air Zimbabwe, SAA) benefits KQ.

Increasing African trade with the Mid-East, Far East, China and India will increase passenger and cargo numbers.

Huge potential in tourism from the increasingly wealthier Chinese, Indians and Middle Easterners.

KQ has become the ‘ local’ or ‘ regional’ airline for many SSA countries e. g. Lusaka-Lilongwe, Lagos-Abidjan-Monrovia, Accra-Freetown, etc.

Global Financial Crisis will enable 787 deliveries to be made sooner than expected.

Threats

According to Mullins (2007) refers to unfavorable situations that arise from external developments likely to endanger the operations and effectiveness of the organizations. This may include change in legislations, introduction of radically new product by competitors, political or economic unrest, changing social condition and actions of political pressure.

Ethiopian Airlines has a stronger pan-African presence and better global reach vs KQ. And it keeps growing.

Airlines privatizing – or recently privatized – all over Africa including Air Tanzania, Air Uganda, Air Malawi, etc.

New and expanding Low-Cost Airlines (Jetlink, Fly540)

Low purchasing power in SSA means air travel is a luxury for 99% of the population thus limited growth in the next 5 years.

High and volatile oil (fuel) prices.

Low barriers to entry. Anyone can buy a plane (see Fly540, Air Uganda). Both in Kenya and in SSA

CHAPTER TWO: ORGANIZATION STRUCTURE

According to (Mullins, 2007), Organization Structure is the division of work among members of the organization, and the co – ordination of their activities so they are directed towards the goals and objectives of the organization. It is a relationship among positions in the organization and among members of the organization. It makes possible the application of process of management and creates a framework of order and command through which the activities of the organization can be planned, organized, directed, and controlled. It defines tasks and responsibilities, work role and relationships, and channels of communication.

However according to Rollinson (2008), Organization structure is taken to be the fundamental and relatively unchanging features of an organization which are officially sanctioned by those who control it and consist of the way activities and component parts are grouped, controlled and coordinated in order to achieve specific aims and outcomes.

Kenya airways organization structure comprises of seven departments each headed by an executive director reporting to the Group Managing Director. The departments are:

Finance

Information Systems

Commercial

Technical

Human Resources and Administration

Flight Operations

Ground Handling

ORGANIZATION CHART

. According to Mullins (2007), if span of control is too narrow, this may present a problem of coordination and consistency in decision making, and hinder effective communication across the organization structure. Morale and initiative of subordinates may suffer as a result of tool close a level of supervision. Narrow span of control increase administrative costs and can lead to additional levels of authority in the organization creating an unnecessarily long chain of command. Due to that narrower spans of control and more level authority result in a taller hierarchical structure..

However if span of control is too wide, it may become difficult to supervise subordinates effectively. There may be lack of time to carry all activities properly. Planning and development, training, inspection and control may suffer I particular, leading to poor job performance, also may limit opportunity to promotion. Hence wider span of control and fewer level of authority result in a flat Hierarchical structure.

Span control of the organization structure of Kenya airways is broader structure. Therefore the organization structure of Kenya airways is a flat hierarch structure.

Recommendation to the company is that the structure should adapt the matrix one, because matrix structure is a combination of functional departments which provide a stable for specialized activities and a permanent location for member off staff and units that integrate various activities of different function departments on a project team, product and program. However matrix organization establishes a grid or matrix with a two-way flow of authority and responsibility.

LEADERSHIP AND MANAGEMENT

The leadership is crucial in success of any company. It is the responsibility of leaders in an organization to ensure that employees are focused towards the goals of the organization. Good leadership is measured by the ability to enable or lead the employees to attain the firm's goals at the right time. A leader, should apart from leading the team, be able to solve conflicts, delegate and empower the employees in the organization (Rollinson 2008).

According to Miller et el (pg 285) in Mullins, (2007), by definition there are important distinction between the two concepts of management and leadership. Management involves using human, equipment and information resources to achieve various objectives. On the other hand, leadership focuses on getting things done through others. Thus you manage things (budgets, procedures and so on), but you lead people.

The kind of leadership denoted at Kenya Airways is formal leadership. This is a kind of leadership which is administered by having a defined position within the organization structure. This is a scenario where power comes from the highest authority . For instance in this company the highest authority is the C . E . O who ensures that all the other managers run their various departments with an ultimate goal of accomplishing the general company's goal. The various managers ensure that the employees in their department are adept and competent to disseminate the quality kind of services that the company preaches. It is also the managers at departmental level that ensure that employees are empowered in terms of new skills and responsibilities.

Through their managers, Kenya Airways empowers its employees by creating a culture of empowerment through training them. After the employees are trained they acquire skills which enable them to develop their personal skills. Thus the employees are empowered which leads to them being motivated intrinsically and thus perform their job to the required satisfaction. In essence it is due to adept leadership skills at Kenya Airways that the employees are influenced persuaded and taught the various skills they manifest in their operations. With this kind of leadership, the employees are left motivated and work tireless towards the goals of the company. At Kenya Airways power is distributed through a logical and rational structure. This kind of power or authority distribution stresses on the responsibility within the organization rather that concentrating on one central figure (Mullins, 2002).

ORGANIZATION COMMUNICATION AND INFORMATION SYSTEM

Due to rapid change of technology Kenya airways tried to combat with those changes. Kenya Airways has invested in an Enterprise Resource Planning (ERP) system in order to ensure computerization of all HR processes. The key processes already implemented include recruitment, training, leave applications and rebate ticket processing through electronic means.

The Learning Management module of this system contains a learning calendar signifying the various programs available. It allows staff to sight and enroll for programs online and facilitates the management of training records. Automation of our recruitment process has translated into a shift from hard copy paper applications to online applications for all vacant positions through the Company website.

The rapid growth and expansion of Kenya Airways and the attendant huge investment in fleet and new routes has made it imperative to equip the Network Planning and Airline Strategy Department with an appropriate Information System to enable it develop, maintain and quickly update an optimal network strategy. The airline has acquired and implemented a network planning system solution from Lufthansa Systems. This solution is capable of addressing fleet planning and assignments, frequency adjustments, capacity rationalization, schedule synchronization, the development of new destinations, alliances and partnerships which are all important aspects in developing an optimal network strategy. The solution, which is referred to as the Network Planning Tools, has already started strengthening and improving the processes and procedures in the Department by optimizing the key aspects of network planning through analysis and evaluation to improve situation awareness and facilitate decision making.

Kenya airways have increased the mobility of staff working at the airside or in the aircraft on ground at JKIA through the installation of a wireless network on the airside at JKIA which enables them to access KQ systems from their laptops. This has led to an increase in their productivity. The same wireless network is used by our baggage teams which handle baggage scanning on the airside. This has led to more accurate baggage reconciliation and ensures that the right bags go to the right destinations. Another wireless network has been installed in the maintenance hangar which provides engineering staff with the same conveniences when they are working on aircraft in the hangar, (Annual Report 2009)

CHAPTOR THREE: HUMAN RESOURCES MANAGEMENT AND REWARD

Kenya Airways is truly the Pride of Africa. Our global network now reaches 47 destinations, 39 of which are spread across the Africa continent. Our 26 modern aircraft, including four Boeing 777 series, makes us one the youngest fleets in Africa.

Kenya Airways opens a world of opportunity across the continent helping create sustainable development by connecting its people and businesses within Africa and around the world.

At Kenya Airways we believe our greatest asset is our people. When you join Kenya Airways we provide you with training and all the systems and tools you require to perform. And best of all, we provide an environment that enables each and every one of our employees to achieve their full potential.

BRIEF DESCRIPTION

To provide active leadership in partnership with functional teams on HR issues and development of performance based reward and compensation strategies.

Detailed Description

To ensure manpower planning exercise is in line with the business goals of the company

To undertake succession planning for key roles in the organization

Develop a framework to analyze the organization structure, identify ways to make it more effective, evaluate people and jobs to match the right individuals to the right roles, define career progressions both from individual roles and across related job groups.

Ensure that the job grading system reflects the organizational structure and that it has the flexibility to accommodate the subtleties of all jobs across the organization.

Review and implement the performance management system throughout the company.

To design proactive retention strategies, ensure minimal attrition rates for top talent

Develop and implement reward programs that reflect the business strategy and work culture or the organisation.

Participate in selected salary surveys and analyse the data to establish whether grading and remuneration systems are competitive.

Monitor the effectiveness of the compensation guidelines and procedures while recommending revisions as well as new, cost-effective plans.

Develop procedures and reports to monitor compensation throughout the year in all locations in order to maintain internal equity in compensation structures throughout the company.

Lead the implementation of the People Strategy and other major change, within functional areas.

Contribute to the development of the business area’s agenda and strategy and contribute to the leadership of the business area

Challenge and provoke business leaders on how to engage their teams; address resulting people issues and build people capabilities effectively

Initiate, design and execute integrated people solutions that address key functional issues, bringing together the resources within the business areas and HR teams in order to achieve timely resolution of people issues

Core Competencies

Excellent negotiation, communication and interpersonal skills

Excellent organizational, planning and analytical skills

Organizational diagnosis

Influencing (Coaching & Facilitation)

Transformational change management

Commercial management

Delivery management

Human Resources Competencies

Resourcing

Employee Relations

Reward and performance management

Leadership and talent development

Employee communications

Organization development and culture management

CORPORATE SOCIAL RESPONSIBILITY

Apart from dealing with airline transportation but cooperate social responsibility remain unchanged, focusing on the following areas

Kenya airways continue to work with local communities to provide access to sustainable, safe and adequate water supply in arid and semi arid rural community across Africa. However some classrooms, fence, desks and computers are contributed by Kenya airways to different school across Africa in the campaign of promoting education infrastructure.

Moreover Kenya airways involved in the project of plant a future, by planting trees in the operation of promoting environment sustainability.

CHAPTOR FOUR: MANAGEMENT OF CHANGE

According to Hayes (2007), is about modifying or transforming organizations in order to maintain or improve their effectiveness. Managers are responsible for ensuring that the organization (or the part of the organization they manage) performs effectively.

Kenya airways were with very little equipment, also without adequate technical expertise, competent employees, effective management and had no virtually financial base. Its initial problems, however was compounded by persistent unsounded management policies and strategy.

A congregation of other managerial tribulations also contributed to the airline’s decline in service provision. From its inauguration in 1977 until 1995, the airline had ten different government-appointed chief executives. Therefore, each successive holder of the office had insufficient time

to develop and implement effective strategies.

Moreover, because the board of directors consisted mainly of political appointees with no specific experience either in managing a business, in general, or an airline in particular, the airline lacked clear strategic direction. Further, although the airline had the largest market share of East and Central Africa regional routes and a fair share of international routes from Nairobi (e. g., Nairobi-London, Nairobi-Rome, Nairobi-Dubai), the airline was losing customers, particularly in the tourist segment, mainly due to substandard flight services and persistent late arrival and departure times.

By 1991, Kenya Airways was unable to pay its debts, which had run into millions of U. S. dollars. Hence, the government continually had to bail the company out of bankruptcy by paying its foreign loans (which the government had guaranteed). In fact, by 1992, the airline was technically bankrupt, and, hence, the government was searching for a way to improve Kenya Airways' messy balance sheet and bring it to profitability. This was achieved by commercialization and privatization.

Accordingly, the government set up Committee to investigate the causes of the airline's problems and to recommend solutions. The Committee subsequently recommended commercialization of the airline, making it clear that Kenya Airways could not become a viable enterprise unless its state ownership was ended. Commercialization here involved restructuring of an organization so as to introduce accountability and economic efficiency into its operations. With respect to Kenya Airways, the aim was to make the company more responsive to its external environment and to expose it to competitive pressures in the industry

The government accepted the recommendations of the committee and subsequently dismissed the airline's entire board of directors, together with the chief executive, and appointed a new board. The new board's mandate was to overhaul the airline's management, create efficient and profitable services, commercialize the airline, and prepare it for eventual privatization (Tiller, 1997).

In order to turn the company around, the new board came to the conclusion that the airline could only become a commercial success if its route and fare structure, fleet acquisition decisions, hiring and promotion practices, and financial systems were based on normal commercial principles, free from political interference. Consequently, in February 1992, the board commissioned Speedwing Consulting (a British firm that was an independent arm of British Airways and had been involved in the privatization of British Airways) to make recommendations on ways and means to improve Kenya Airways' performance. Speedwing Consulting reported that,

(a)The airline's management skills, organization, and culture were not suited to commercial, profit-oriented enterprise;

(b) Operational performance was neither measured nor controlled;

(c) Financial control was very weak, with late and inaccurate reporting and poor accountability; (d) Existing computer systems did not support the business adequately;

(e) Marketing and revenue generation were major areas of weakness;

(f) Customer service standards were low, with limited measurement and control of quality;

(g) Productivity was not routinely measured and appeared to be low;

(h) In every function (particularly at middle and lower levels), there existed untapped sources of expertise and enthusiasm.

i) Technical skills were often poorly utilized (Tiller, 1997).

Thus, Speedwing Consulting recommended radical changes in management, personnel, and governance structure; an overhaul of information technology; a new approach to marketing; and a comprehensive program to improve customer service. It singled out the urgent need to adopt a profit-oriented culture. Moreover, it advised the appointment of a chief executive with airline experience, able to effectively implement the recommendations, and a finance director with experience in the airline industry to introduce new financial control and accountability systems. The new leader was also expected to develop proper budgetary planning, control, and reporting systems. It also recommended the appointment of a marketing director with experience in the airline industry to carry out a major overhaul of sales and marketing activities (Yaw, 2005).

CONCLUSION

It vestiges to be seen how Kenya Airways will achieve in the future, known that its memorable performance in the recent past. One aspect that will be vital for assessing its future performance is the political environment in Kenya and the countries in which the airline operates. The political crisis and conflicts in Central Africa create solemn threats to the airline’s growth. More important, the continued success of the airline will depend on the government’s ability to curb the soaring numbers of crimes and criminal activities in the country and tackle terrorist activities such as the 2003 hotel bombing in Mombassa. Failure to do so will have devastating consequences on the Kenyan tourist industry and, consequently, on the growth of

Kenya Airways (Yaw, 2005)

Kenya airways continue to focus on profitable expansion of their network through a combination of direct access and alliances with other carriers. Sustainable improvement in yield will be pursued through a combination of a new revenue management system and better discipline. Management will also place emphasi